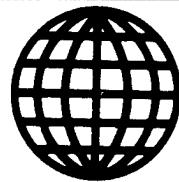


JPRS-CAR-88-002  
5 FEBRUARY 1988

064048



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report—***

DISTRIBUTION STATEMENT A

Approved for public release;  
Distribution Unlimited

# **China**

19980714 145

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL  
INFORMATION SERVICE  
SPRINGFIELD, VA 22161

DTIC QUALITY INSPECTED 8

10  
73  
A04

# China

JPRS-CAR-88-002

## CONTENTS

5 FEBRUARY 1988

### INTERNATIONAL

#### NORTHEAST ASIA

Japan's Desire To Become 'Political Power' Examined  
[Xi Louren; GUOJI WENTI YANJIU No 4, Oct 87] ..... 1

#### POLITICAL

Purge of Wang Ruoshui, 4 Others From CPC Deferred [Chen Chi-sun; PAI HSING, 16 Oct 87] ..... 5  
Theoretical Issues of Political Structural Reform [Tan Jian; GUANGMING RIBAO, 15 Nov 87] ..... 7

#### ECONOMIC

##### NATIONAL AFFAIRS, POLICY

Tax Bureau Director Calls for Improvement in Tax Collection System  
[Jin Xin; ZHONGGUO SHUIWU, 12 Oct 87] ..... 9  
Journal on Allocation of Responsibility [JINGJI YANJIU, 20 Nov 87] ..... 14  
Price Reform Reviewed [Zhu Min; JIAGE LILUN YU SHIJIAN, 20 Jul 87] ..... 20  
Investment Counselors Discuss Investment Reform  
[Zhang Zhenghua, Chen Zimu; JINRONG SHIBAO, 12 Oct 87] ..... 24  
Investment System Reform Urged [Jia Kang; ZHONGGUO JINGJI TIZHI GAIGE, 23 Oct 87] ..... 25  
Bo Yibo on Increasing Investment [Bo Yibo; NONGYE JINGJI, 25 Aug 87] ..... 29  
Survey of Enterprises in First Two Quarters [Peng Zhaoping, et al.; JINGJI RIBAO, 3 Oct 87] ..... 30

##### FINANCE, BANKING

Bank Experiment Points Way Toward More 'Enterprise-Like' Operations  
[JINRONG SHIBAO, 17 Sep 87] ..... 31  
Reasons, Remedies for Slow Financial Market Growth  
[Wang Zhiyi, et al.; JINRONG SHIBAO, 1 Oct 87] ..... 33  
Regulations To Restrict Banks' Overlapping Operations  
[Chen Xu; JINRONG SHIBAO, 5 Oct 87] ..... 34  
Suggestions For Spurring Development of Financial Markets  
[Cui Yang; CHING-CHI TAO-PAO, 20 Oct 87] ..... 35

##### SMALL-SCALE ENTERPRISES

Uneven Distribution of Township Enterprises Termed Problem  
[Zhang Jihai; JINGJI CANKAO, 20 Oct 87] ..... 36

##### FOREIGN TRADE, INVESTMENT

Reasons for 'Standstill' in Japanese Investment Discussed  
[Mou Jun; SHIJIE JINGJI DAOBAO, 19 Oct 87] ..... 37  
Optimizing Export Mix by Developing Industrial Strategy  
[Meng Jixin; GUOJI MAOYI, 27 Sep 87] ..... 38  
Measures To Develop Overseas Engineering Contracts  
[Xue Jiang; SHIJIE JINGJI DAOBAO, 28 Sep 87] ..... 40  
Journal on Foreign Trade Macroeconomic Control [JINGJI GUANLI No 11, 1987] ..... 42  
Ways To Make Fujian's Light Industry, Textiles More Export-Oriented  
[Light Industry Inspection Office of Fujian Province; FUJIAN LUNTAN, 5 Oct 87] ..... 45

## ECONOMIC ZONES

Ningbo's Progress as One of 14 Coastal Cities  
*[Wu Keqiang; LIAOWANG OVERSEAS EDITION, 26 Oct 87]* ..... 48

## AGRICULTURE

Water, Electric Power Minister on Water Conservancy  
*[Qian Zhengying; ZHONGGUO SHUILI, 15 Oct 87]* ..... 50

Problems, Solutions for Rural Financial Markets  
*[Xu Hao, Wang Qingshan; NONGYE JINGJI WENTI, 23 Sep 87]* ..... 54

1987 Bumper Grain Harvest Analyzed *[NONGMIN RIBAO, 28 Oct 87]* ..... 58

Breakthrough Reported in Rice Chloroplast DNA Research  
*[Song Jianxun; ZHEJIANG RIBAO, 17 Oct 87]* ..... 60

Correlation Between Rice Resistance, Rice Blast Strains  
*[Feng Daigui, et al.; ZHIWU BAOHU, 8 Oct 87]* ..... 60

Tests of Resistance of Rice Varieties to Common Diseases  
*[Shen Ying, et al.; ZHIWU BAOHU, 8 Aug 87]* ..... 61

Aluminum Phosphide Eradicates Wheat Pests *[Wu Qinghai, et al.; ZHIWU BAOHU, 8 Oct 87]* ..... 61

Diagnosis, Treatment of Porcine Epidemic Diarrhea  
*[Wu Shuxian; ZHONGGUO SHOUYI ZAZHI, 22 Jul 87]* ..... 61

Plans For Calf Embryo Transplants *[Dong Wei; ZHONGGUO XUMU ZAZHI, 4 Apr 87]* ..... 62

Correlation Between Insecticide Dosage, Mosquito Deaths  
*[Wu Neng; KUNCHONG ZHISHI, Jul 87]* ..... 62

## MILITARY, PUBLIC SECURITY

Missile Destroyer Completes Major Retrofit *[JIANCHUAN ZHISHI, Aug 87]* ..... 63

Type-69 Twin 30mm Naval Gun Specifications *[BINGQI ZHISHI, 15 Sep 87]* ..... 63

Conference on Nuclear Strategy *[JIEFANGJUN BAO, 21 Nov 87]* ..... 63

Strategic Rocket Force Improves Launch Capability *[JIEFANGJUN BAO, 20 Nov 87]* ..... 63

New Training Management in Strategic Rocket Force *[JIEFANGJUN BAO, 21 Nov 87]* ..... 64

2d Artillery Brigade Improves Training Conditions *[JIEFANGJUN BAO, 20 Oct 87]* ..... 64

Rocket Force Benefits From Technology Exchanges *[JIEFANGJUN BAO, 21 Nov 87]* ..... 64

First Batch of Soldiers Airlifted to Lhasa *[JIEFANGJUN BAO, 19 Nov 87]* ..... 64

Henan MD Establishes Complete Reserve Bases *[JIEFANGJUN BAO, 9 Nov 87]* ..... 64

New Naval Artillery Fire Control System *[JIEFANGJUN BAO, 6 Nov 87]* ..... 65

Xinjiang MD Artillery Brigade *[JIEFANGJUN BAO, 10 Nov 87]* ..... 65

Shenyang MR Constructs New Barracks *[JIEFANGJUN BAO, 15 Nov 87]* ..... 65

Group Army Tank Brigade Meets With Chengdu Students *[JIEFANGJUN BAO, 15 Nov 87]* ..... 65

Artillery Brigade on Yunnan Border *[JIEFANGJUN BAO, 27 Oct 87]* ..... 65

## REGIONAL

### NORTHEAST REGION

Harbin Shifts Party Elements to Local Administration  
*[Zhou Jinbao; HEILONGJIANG RIBAO, 7 Nov 87]* ..... 66

### TAIWAN

Brief Analysis of Social Class Structure *[TZULI WANPAO, 1 Nov 87]* ..... 67

Health, Residency Problems of Parliamentarians *[TZULI WANPAO, 29 Oct 87]* ..... 68

Scholars' Views on Parliamentary Reform *[TZULI WANPAO, 12 Nov 87]* ..... 68

## NORTHEAST ASIA

### Japan's Desire To Become 'Political Power' Examined

40050042 Beijing GUOJI WENTI YANJIU [INTERNATIONAL STUDIES] in Chinese  
No 4, Oct 87 pp 34-37

[Article by Xi Louren [0153 1286 0088]: "An Exploration of the Issue of Japan's March From an 'Economic Power' to a 'Political Power"'; material in boldface as originally printed]

**[Text]** Not content with its status as an "economic power," Japanese leaders have striven since the beginning of the 1980s to make Japan a "political power." Their specific goals have been for Japan to sit as an equal with the major nations of Western Europe, to play a leadership role in the Asia-Pacific region, and ultimately to become a "political power" in the world. Their main tactic has been mostly an intensification of economic activity supplemented by "creative diplomacy." Certain trends and issues that have developed within Japan have aroused intense dissatisfaction and serious vigilance on the part of international society, particularly among the countries and people who suffered from Japan's militarist aggression.

Not content with its status as an "economic power," Japanese leaders have striven since the beginning of the 1980s to make Japan a "political power," and they have taken positive action to make this Japan's strategic foreign policy goal to be attained by the end of the present century.

#### I. Background to Setting the Goal of Being a "Political Power"

After years of deliberation, in mid-1983 Prime Minister Nakasone explicitly proposed for the first time that Japan should become a "political power." The background to this proposal may be found mostly in the following several points:

A. Economic Strength Increased Greatly. Ever since the late 1960s when Japan became the "number 2 economic power" in the western world, the annual rate of its economic growth has been approximately double that of developed western countries. Despite Japan's considerable weight in the world economy, its right to speak on international affairs has not been great, and Japan's leaders felt that Japan should have a position as a "political power" commensurate with its position as an "economic power."

B. Marked Increase in Great Nation Consciousness. As Japan became strong and prosperous following the Meiji Restoration, the Japanese people developed feelings of superiority, regarding themselves as the "outstanding members of the yellow race" who should "take over Asia." During World War II, this great nation

consciousness grew further only to vanish for a time following the war. Recently the increase in Japan's economic power has stimulated anew this great nation consciousness. After becoming the world's number one creditor nation, Japan became even more swaggering and enormously proud of its success. This was not only true of its leader, but was markedly manifested among the general public as well. Nakasone's advocacy of a "political power" was not only in keeping with the desires of the leaders, but struck a responsive chord in the general public as well.

C. Regional Situation Provides Opportunities. At the end of the war, the United States dominated Asia. However, the Korean War and the Vietnam War greatly weakened U.S. power, so it had no choice but to propose the "Nixon Doctrine" and to retrench in Asia. When Reagan took office, there was a rallying of forces. Nevertheless, reliance continued to be placed on the U.S.-Japan security system and other alliances to maintain, consolidate and strengthen the U.S. presence in Asia, and Japan was frequently called upon to play a greater role in that region. The USSR played an increasingly active part in the Asia-Pacific region, particularly in increasing its military presence, thereby arousing increased political apprehensions among Asian countries. China is a major country in the region, the political influence of which cannot be ignored; however, in Japan's view China's economy has yet to be vigorously developed; consequently, Japan believed that the situation in the Asia-Pacific region left it considerable room for maneuver and provided favorable international conditions for it to seek to become a "political power."

#### II. Pursuit of Concrete Goals

Apprehensions engendered reproach, with the result that Nakasone talked ambiguously about the meaning of "political power" and subsequently changed the term "political power" to "international nation." However, a look at the words and actions of Japanese officials showed Japan's open emphasis on pursuit of three concrete goals as follows:

A. To sit as an equal at the same table with major western European powers. Japan's international influence is not as great as that of several European powers. There are several reasons for this: 1) A defeated nation in World War II, Japan was politically restricted in tangible and intangible ways, and remained in a semi-independent situation for a long time; 2) after the war, Japan devoted itself wholeheartedly to the development of its domestic economy and did not concern itself very much with international political affairs, in which it followed America's lead. Since the beginning of the 1980s, Japan has found its wings and is no longer willing to trail behind western Europe. It is determined to change its former "low posture," and take an active part in international affairs. Japan intends to use its active role as "a member of the western camp" to participate in joint action by the United States, Europe, and Japan to

increase its own international standing and political influence. Japan has concluded that for the time being it is unable to compete as an equal with the United States; conditions exist, however, for it to sit as an equal at the same table with European powers.

B. Leadership Role in the Asia-Pacific Region. Japan wants to employ the close economic relations it has built with other countries and its "detached position," plus the conduct of "creative diplomacy" to become actively involved in the region's political affairs. In addition, it plans to increase its "status as a political power" in mediating international disputes, using this as a foundation for attaining its goal of playing a political leadership role in this region.

C. Ultimately Becoming a "World Political Power." As an important link in conducting the postwar "political settlement," Japan plans to erase all vestiges of its vanquished nation status and eradicate the "enemy clauses" in the United Nations charter so as to remove obstacles to its becoming a member of the Security Council, and ultimately becoming a "world political power" in fact as well as in name. This is to say that it wants to parlay its regional role into global influence.

### III. Actions and Methods

Japan realizes that in today's world in which each political power has defined its international position, it will be no easy matter to ascend to the ranks of a world power. Consequently, the principal method that Japan has decided to employ is intensification of economic activity supported by "creative diplomacy."

A. Taking Further Advantage of Its Economic Power. Japan acknowledges that conditions exist for it to "shoulder responsibility to bring about a prosperous world economy"; consequently, it has stressed intensification of economic activity as a method for realizing its political goals.

1. Improvement of Economic Relations With Developed Nations: As a result of Japan's large exports of goods, all the major developed countries have longstanding trade deficits with Japan. The European Economic Community's trade deficit with Japan has increased with each passing year, and America's trade deficit with Japan has risen in a straight line. Economic friction between Japan and both Europe and the United States have become increasingly intense. In order to soothe the economic conflicts, Japan has lowered customs duties, opened markets, and revalued the yen to increase imports. In addition, with the serious weakening of American power and the serious difficulties faced by the economies of all western countries, Japan has increasingly shouldered "economic responsibilities" in place of the United States, and it has helped the United States maintain the international economic order that is currently guided by the western countries, thereby increasing Japan's right to speak out on international affairs.

2. Strengthening Cooperation With Developing Countries: Postwar Japan's foreign relations with developing countries have largely served Japan's economic goals. Since the beginning of the 1980s, however, there has been a marked strengthening of the tendency for its economic activities to serve political goals. In order to win these countries' goodwill and support, Japan has done the following things: 1) Increase economic aid. There has been a gradual increase in Japan's economic aid to developing countries. This assistance has focused on Asia. 9 of the 10 major countries to which Japan has provided bilateral assistance being in Asia. Assistance to the Association of Southeast Asian Nations [ASEAN] accounts for approximately one-third of all Japanese government economic assistance, and exceeding the total amount going to the Middle East, Africa, and to Central and South America. Assistance has frequently aimed at garnering both economic and political benefits. Japan has said that it wants to become the "number 1 assistance power" by 1990, thereby becoming a "magnet" to attract developing countries. 2) On North-South issues, it has adopted a "high posture." In order to gain the goodwill of developing countries, Japan's leaders have said many nice things such as "without prosperity in the south, there can be no prosperity in the north"; Japan "will pay any price to avoid a confrontation between the poor countries and the rich countries;" and in order to solve problems between the north and the south, Japan "is willing to take risks in pulling chestnuts from the fire," etc. In recent years, at the annual heads of state conference of seven western nations, Japan has repeatedly assumed the role of "spokesman for Asia." 3) Japan has pushed a "Japanese yen economic sphere" in the Asia-Pacific region. As the American dollar has depreciated and the German mark and Japanese yen have appreciated, a situation may arise in international financial markets of tripartite reliance on the dollar, the mark and the yen. In preparation for the day when this will occur, Japan has already begun to get ready to promote the "internationalization of the yen" in a plan whereby Tokyo will gradually become an international financial center, with the yen partly supplanting the role of the dollar to become the reserve and clearing currency for the Asia-Pacific region. As the demand for yen by countries in the Asia-Pacific region increases, Japan will strive to make the Asia-Pacific region area into a "Japanese yen economic sphere," i.e., in a certain sense, a Japanese economic "sphere of influence." These economic activities and plans are part and parcel of becoming a "political power."

B. Vigorous Diplomatic Activity. "Creative diplomacy" is a new plan put forward by Japan as a follow-on to "all points diplomacy." By "all points diplomacy" is meant the readjustment of relationships with major countries to improve Japan's own international climate. "Creative diplomacy" uses this as a basis for taking advantage of a role that other countries find difficult to take advantage of, using a "mediator" role to intervene in international

conflicts and increase its own right to speak out on political matters. Japan is devoting increasing attention to "creative diplomacy," in the following three arenas:

1. Southeast Asia: Vietnam's aggression against Cambodia threatens the security of ASEAN, which pins a certain amount of hope on Japan and wants Japan to "play an active role in guaranteeing peace, justice, and progress in Southeast Asia." This has provided Japan its "first arena" for the mediation of international disputes. On the one hand, Japan's "complete" support for the ASEAN political proposal to solve the Cambodia problem has won the confidence of ASEAN. On the other hand, Japan has maintained a dialogue with Vietnam, and has spared no effort in a desire to restore the economic assistance that was halted as a result of Vietnam's invasion of Cambodia. It has promised Vietnam that just as soon as peace has been restored in Indochina, it will help the region restore its economy in an effort to ingratiate itself with Vietnam. Japan has used its favorable position for carrying on a dialogue with all parties to practice "creative diplomacy" frequently in order to help solve the Cambodia problem for the purpose of strengthening its own right to speak out.

2. The Korean Peninsula: After Nakasone became prime minister, Japan greatly improved bilateral relations by providing South Korea with huge loans (\$4 billion) and through consultations between heads of state. Japan did much to create public opinion and lobbied everywhere to get countries concerned to "overlap recognition" of South and North Korea. At the same time, it repeatedly called on countries concerned to take part in the Seoul-sponsored Asian Games and Australian Games. It also adopted some postures with regard to the development of relations with North Korea.

3. The Persian Gulf: Japan, which pursues "equidistant diplomacy" with Iraq and Iran, has sent high-ranking Japanese officials, including the Foreign Minister, on successive visits to both Iraq and Iran. It has also several times invited high-ranking officials, including the foreign ministers of both Iraq and Iran, to visit Japan. Japan has also frequently engaged in diplomatic activities to mediate the war between Iraq and Iran.

Though Japan's "creative diplomacy" has yet to score breakthrough advances, Japan has expanded its political influence.

#### IV. Conditions and Background

Abundant economic strength is the most favorable factor in Japan's winning of "political power" status. Its banners of "peaceful diplomacy" and "creative diplomacy" have also played a certain role in elevating Japan's international standing. As its economic strength grows, its right to speak out in international affairs will also grow. Nevertheless, Japan suffers from inherent defects, most important of which is dependence on imports for most of its resources and energy, inability to feed itself,

and serious reliance on overseas markets for the sale of its principal industrial products. Should there be a sudden change in the international situation, not only would there be no economic prosperity to speak of for Japan, but even its survival would be at stake. This is a fundamental weakness for which there is no remedy. In addition, Japan is also severely restricted by the international climate. Even so, Japan cannot abandon efforts to become a "political power." Viewed in terms of realities and possibilities, the situation with regard to Japan's realization of its three anticipated goals during the 1980s and during the present century will be as follows:

A. It will not and cannot become a member of the Security Council. This is because the United Nation's charter provides that "any revision of the charter" requires a "recommendation voted by two-thirds of the General Assembly," and must "be approved by two-thirds of the members of the United Nations, including all permanent members of the Security Council." Moreover, for Japan to attain this goal, it would have to gain the support of the United States. Because of global strategic needs, the United States hopes that Japan will be able to play a greater supporting role; however, one must also realize that the United States cannot but be wary about Japan's ambitions for becoming a political power. Therefore, it seems that Japan's dream of becoming a member of the Security Council will be impossible to realize.

B. It is possible that Japan will be able to sit at the table as an equal with western European powers as part of a future joint American-European-Japanese system. Japan's economic strength is greater than that of any major western European country; its science and technology is on a par; and its potential for development is very great. It will be able to continue to maintain dominance, thereby narrowing the political gap, but its contradictions are insoluble.

C. Japan's role in the Asia-Pacific region will increase, but apprehensions about Japan will also increase. Japan has already established wideranging economic relations with the countries of the Asia-Pacific region, and it intends to strengthen further its economic and political position in this region. It may be predicted that the role of Japan in the Asia-Pacific region, including its political influence, will continue to grow. However, the political and economic situation of each of the countries in the Asia-Pacific region has undergone considerable change. Japan's thoughts of playing a leading political role in this region are unrealistic, to say the least.

#### V. Trends and Issues That Bear Watching

Some of the trends that have taken place during the past several years in the process of Japan's movement toward becoming a "political power" cannot but arouse attention and concern on the part of international opinion.

A. Espousal of New Nationalism. Nationalism and racial chauvinism were important handmaidens in Japan's prewar promotion of militarism. The public espousal by some influential Japanese during the past few years of a "new nationalism" and a "new ethnicism" regarding the superiority of the Japanese race bears watching. Quite a few people who hold positions of authority in the political arena today were prewar political figures, who are strongly nationalistic and ethnocentric. Given the new circumstances, these people are trying to remove postwar restrictions, demolish forbidden zones, and change the existing line with regard to the outside world. In recent years, these ideas have been reflected in the domestic and foreign policies of the Japanese government and in the party platform approved by the Liberal Democratic Party convention. After the "new nationalism" came under criticism both inside Japan and internationally, Japan linked it to her "internationalism" in an effort to conceal its true nature.

B. Open Advocacy of Japan's Need To "Lead Others." Japan's gross national product today accounts for more than 10 percent of the world's gross national product. In 1985, its recurrent receipts surplus amounted to approximately \$50 billion, increasing to \$85.8 billion in 1986. In 1985, Japan became the world's greatest creditor nation. Japan's overseas net assets had a value of \$129.8 billion in 1985 (compared with \$90 billion for the United States and \$50 billion for the Federal Republic of Germany for that same year). In 1986, they stood at \$180.4 billion. In 1986, the United States owed \$263.6 billion, one-third of it to Japan. The Japanese Nomura Institute estimated that by 1990 Japan's overseas net assets would reach \$500 billion, while America's foreign debt would also reach \$500 billion. The rapid growth of economic power has made some Japanese swellheaded, some preaching that Japan should "lead others," and saying that Japan's current designation as "the second economic power" falls short of the reality inasmuch as "those who have not tasted the pleasure of leading others are very frustrated people."

C. The "Kasumigaseki Building" and the "Garbage Heap." Japan has already formed a relationship of economic interdependence with Asian nations, and this relationship will become even closer. However, recently some people in Japan have termed Asia a "garbage heap" and Japan a "Kasumigaseki Building" (Kasumigaseki is a district in Tokyo in which government organizations are concentrated) towering over the the garbage heap. They preach "taking leave of Asia," and

"leaving Asia behind to enter Europe (or America)." They also say that even to be isolated from Asia would also be an honor. They have even threatened that the countries against whom Japan waged aggressive warfare in the past were also themselves responsible for the aggression, and they have said that after 40 years, the time limit on responsibility for the war has expired. Clearly this is not only a major economic issue, but also a serious political issue. People can hardly be blamed for having doubts on this account. Just what are these people up to? At this rate, just what direction will Japan take in the future? Even some Japanese who understand matters have noted that this is a fallacious notion that is extremely damaging to the world economy and international relations, and the one that will suffer most in the end will be Japan.

D. What Kind of "Postwar Final Settlement"? The Japanese government has repeatedly informed the world that Japan is a "peaceful country," and positively will not become a "military power." International society also hopes that Japan will fit its actions to its words and make a contribution to world peace. However, ever since Japan proposed a "postwar final settlement," a succession of unusual events related to the Japanese government has occurred, including revision of textbooks to beautify Japan's war of aggression in Asia, formal homage at the Yasukuni Shinto Shrine, renunciation of the trials conducted by the Far East International Tribunal, a proposal to protect navigation within 1,000 nautical miles, exceeding the 1 percent of GNP figure for military expenditures, and the recent use of the Kokaryo Dormitory court decision to create "two Chinas." The power of Japanese militarism has raised its head in Japan. Some influential people tried to erect a "memorial to the founding of Manchukuo," a campaign to "display the blessings left behind by Chiang Kai-shek" was conducted, and "One China, One Taiwan" and "Two Chinas" have been brazenly perpetrated. Such activities and tendencies cannot but arouse intense dissatisfaction and serious vigilance on the part of international society, particularly on the part of those countries and people who suffered from Japanese militarist aggression, and give rise to apprehensions about what kind of "political power" Japan wants to be and what role it will play in future international affairs.

There are other tendencies and problems in addition to the points raised above that await further examination and study.

**Purge of Wang Ruoshui, 4 Others From CPC Deferred**

40050040 Hong Kong PAI HSING in Chinese  
No 154, 16 Oct 87 pp 6-7

[Article by Chen Chi-sun [7115 2765 5549]: "Expulsion of Wang Ruoshui and Others From Party Deferred"]

[Text] In his reply to the CPC Central Discipline Inspection Commission, Wang Ruoshui [3769 5387 3055] said: "In accordance with the party constitution rules, only persons whose revolutionary will is waning are required to leave the party. But I am now precisely in the period of time when my revolutionary will is vigorous. Thus I cannot withdraw from the party."

**Expanding the Field of Attack on Liberalization**

After Wang Ruowang, Fang Lizhi, and Liu Binyan were expelled from the CPC, representatives of the conservative faction Hu Qiaomu and Deng Liqun, at the suggestion of Xu Weicheng [1776 1919 6134], presented a 20-name blacklist to the CPC Central Committee. This was done in preparation for charging them with the crime of practicing "bourgeois liberalization." On this pretext, the spearhead would then be directed at Zhao Ziyang. The 20 names included those of well-known personages like Wang Ruoshui and Wu Zuguang [0702 4371 0342], and also included those of Zhao Ziyang's braintrusters Yan Jiaqi and Su Shaozhi.

Their objective in taking this action was not only to expand the field of attack on liberalization in order to make difficulties for Zhao Ziyang, but also to deal another blow to Hu Yaobang and thus prevent him from making a comeback. By far the largest part of these 20 persons are either supporters of Hu Yaobang or effective writers who admire him. For example, when Hu Yaobang was the president of the Chinese Communists' Party School, Sun Changjiang [1327 7022 3068], deputy editor-in-chief of KEJI RIBAO, enlisted the persons who finalized the text of the treatise "Practice Is the Sole Criterion for Testing Truth." Also, as everybody in Beijing knows, Su Shaozhi, director of the Marxism-Leninism-Mao Zedong Thought Institute in the Chinese Academy of Social Sciences, in seeking a theoretical basis for reform and for the policy of opening up to the outside world, was the first person to put forward the concept of the "initial stage of socialism." This concept has already become an important thesis in the report made by the Central Committee of the 13th CPC Congress to the main body of the congress. In the conservative faction's view, this man had had the audacity to put a new interpretation on socialism, and he had also criticized Stalin. That did it. He had to be stripped of his posts inside and outside the party.

**Shooting the Bird That Lifts Its Head Makes Waves**

On 13 May Zhao Ziyang counterattacked in response to this challenge by the conservative faction. In his "speech to a meeting of propaganda, theoretical, journalistic, and Party School cadres," he said: "The stability of the present policies is the precondition for the stability of the economic situation, and it is impermissible to disturb the popular feeling." Who wants to disturb the popular feeling? The conservative faction, of course.

However, because the purging of intellectuals has become the conservative faction's fixed policy for "upholding the party's authority," although Zhao Ziyang suppressed this blacklist for nearly half a year, at the Beidaihe Conference, when the two factions were pitted against each other, the reform side, in order to seek a compromise at a higher level, had to agree, at the insistence of the conservative faction, that the intellectuals must be "washed clean" as a punishment, only on the condition that the range of those punished be narrowed as much as possible. Thus, only five persons were to be purged.

In the last part of September, when receiving visitors from the U.S. National Broadcasting Corporation, Zhao Ziyang gave an explanation of this affair. He said that if a writer or an intellectual was a member of the CPC he would be respected as an intellectual, and also could fully play his role as an intellectual. However, as a party member, he must respect the party's program and constitution. If he does not do so, he must be expelled from the party. Therefore, Zhao Ziyang said he did not consider this a purge.

The conservative faction never expected that their practice of "shooting the bird that lifts its head" would make such waves.

At the Beidaihe Conference, the decision was made to purge the five men. Su Shaozhi was to be stripped of all his posts inside and outside the party. Of the other four men, two (Wu Zuguang and Wang Ruoshui), were to be advised to leave the party and the other two (Sun Changjiang and Zhang Xianyang [1728 7359 2254]) were to be expelled from the party. Who was to do the deed? After a discussion, Hu Qiaomu was sent to persuade Wu Zuguang, and Wang Heshou [3769 7729 1496], a secretary on the Central Discipline Inspection Commission, went to persuade Wang Ruoshui. Hu Qiaomu knew that Wu Zuguang was easy to talk to, and he got his promise to leave. Wang Heshou knew that his fellow clansman Wang Ruoshui was not all that easy to talk to, and they got into a real argument, in which he was no match for Wang Ruoshui, who refused to go. Who, in the end, was made to relay this decision of the CPC Central Committee's to Wang Ruoshui? After much buckpassing, the task was given to Qian Liren [6929 2621 0088], director of RENMIN RIBAO, who

had no alternative but to brace himself and promise to tell Wang Ruoshui. However, the Central Discipline Inspection Commission still sent someone to deliver the "red seal" document.

### Wang Ruoshui Sticks to His Own Views

On the afternoon of 28 August, when the man from the Central Discipline Inspection Commission handed the "red seal" document demanding his withdrawal from the party to Wang Ruoshui, the latter said, both seriously and humorously: "According to the party constitution rules, only persons whose revolutionary will is waning are required to leave the party. But I am now precisely in the period of time when my revolutionary will is vigorous. Thus I cannot withdraw from the party."

As for the Central Discipline Inspection Commission's notification that if he did not agree to withdraw he would be expelled, Wang Ruoshui said: "I want to submit a written statement arguing my case to the higher authorities."

The reason for Wang Ruoshui's being forced to withdraw was said to be that he opposed the "four upholds" and advocated the theory of alienation. He himself said that "these issues have been thoroughly clarified, and they cannot be a tenable reason." People in the know are aware that the main point is that Wang Ruoshui is being persecuted by Hu Qiaomu. Because Hu Qiaomu is persecuting Wang merely over a dispute over theory, he relies on his own authority to purge him.

On 11 May 1985, at the Huadu Restaurant in Beijing, when Lu Jian [7120 7002] asked Wang Ruoshui about his dispute with Hu Qiaomu, Wang said that it was over their understanding of humanitarianism and alienation. Wang maintained that the core of humanitarianism is the human person and the human person's worth. But Hu Qiaomu thought that to stress the worth of the human person is to depart from the "direction of Marxism-Leninism and induce feelings of mistrust toward socialism." Thus an academic issue was raised to the political plane of opposition to the four basic principles. Hu Qiaomu accused Wang Ruoshui of advocating bourgeois humanitarianism, and boasted that he himself advocated socialist humanitarianism.

What argument can be made against such a "determination of the nature of a case"? However, Wang Ruoshui is a "hard bone"—a dauntless, unyielding man. He insists on reasoning things out, and he directed his argument at an article that Hu Qiaomu had published in January 1984 entitled "On Humanitarianism and Alienation." From February to March of the same year, Wang wrote an article entitled "My Views on Humanitarianism—Answers and Discussions."

### Someone Takes Up the Cudgel in Their Defense

Wang Ruoshui had forgotten that Hu Qiaomu was a petty man used to putting down others by means of his power and influence. How could he act like a gentleman? Therefore, Wang Ruoshui's fate, besides being asked to withdraw from the party, was to await his expulsion from it. However, the way many things develop in the world are often not changed by people's will. Unexpectedly, by a strange combination of circumstances, the purge of the five men, including Wang Ruoshui, was deferred.

The way the affair developed was this:

Charged with the crime of being one of the "three types of people," Sun Changjiang was to be expelled from the party just because he had been a member of a combat team at the People's University during the "Great Cultural Revolution," which was a common practice at that time. During the course of bringing order out of chaos, his behavior was outstanding, and those who worked with him at the Chinese Communists' Central Party School, without exception, praised his honesty. Only later, when the old conservative Wang Zhen [3769 7201] became the director of the Party School, did Sun leave to revamp KEJI RIBAO, and for a while he was Nie Rongzhen's [5119 2837 5271] secretary. Now, in conjunction with Lin Zixin [2651 5261 2450], the editor-in-chief of KEJI RIBAO, he is running the newspaper in a splendid fashion.

After it was announced that Sun Changjiang was to be expelled from the party, Lin Zixin took up the cudgel in Sun's defense and wrote a report to his old chief, Marshal Nie Rongzhen. After reading Lin's report, Nie wrote his comments on it and passed it on to Chen Yun [7115 7189] for his check and approval. Chen Yun added three of his own views to the report and passed it on to Zhao Ziyang.

1. Check the facts.
2. If there is to be a decision to expel him there must be a discussion by the general membership meeting of the party branch.
3. He himself should attend the meeting.

After Zhao Ziyang saw Chen Yun's three views, he decided that they were exactly his own too. Therefore, he made another demand: not only should Sun Changjiang be handled in this manner, but also the other four men—Wu Shiguang, Wang Ruoshui, Su Shaozhi, and Zhang Xianying—should be dealt with in accordance with this principle.

Therefore, it was announced that the purge of Wang Ruoshui and the others would be deferred.

**Theoretical Issues of Political Structural Reform**  
40050045a Beijing GUANGMING RIBAO in Chinese  
15 Nov 87 p 3

[Article by Tan Jian [6223 0256]: "Intensify Study of the Theoretical Issues of Political Structural Reform"]

[Excerpts] As a student of political science and of the political structural reform, I intend to discuss the question of intensified studies of the theoretical issues in political structural reform. Political structural reform is an extremely complex item of social system engineering. Because of the urgent necessity to carry out this reform, studies of the theoretical aspects of political structural reform must be energetically intensified. Political structural reform requires studying and working out a series of theories, among these are at least the following:

1. A theory of state development. Traditional theory contains much on the laws governing the emergence of states, on the essential characteristics of states of the exploiting classes, but little on the developmental laws of states, and also little on the laws governing the development of socialist states. Different laws and different developmental directions apply in the cases of states of the exploiting classes and socialist states governed by the people. We must not take the theory on the laws governing the emergence of states as also covering all socialist countries, and must also not take the theory on the laws governing the development of states of the exploiting classes as applicable to all socialist countries.

2. A theory on stages of socialism. The report given at the 13th CPC National Congress clearly states that China is in the initial stage of socialism. Based on this realization, we must devote additional studies to such questions as: How many different stages are there in socialism, what are the criteria of each stage, what are their characteristics, their major tasks, and what is the ultimate developmental objective? In the past, our classical writers and revolutionary leaders have been impatient for early success, disregarded objective conditions, hoped for earliest possible transformation to communism, and made full use of the political powers of the state to initiate communist principles. As a consequence, socialist states have moved along many circuitous roads. Accepting the lessons of history, we must make a clear study of the developmental stages of socialist societies, so as to have the people gain and maintain a sober understanding of the development of socialism, and to avoid serious errors in the theoretical field as well as in policy decisions.

3. A theory of the motive force of socialism. What constitutes the motive force in the development of socialist society? Traditional theory had accepted "class struggle" as the motive force in the development of socialist society. The report given at the 13th CPC National Congress points out: "Reform is the motive force in all work." Achievements during China's 9 years of reform have verified the correctness of this conclusion.

4. A theory of democratic government. Establishment of democratic government is the core of reform. Democratization of government in socialist states is the general trend and general law of socialist political development, which cannot be reversed by whatever forces there are. The objective of democratic government, its full meaning, the stages during its establishment, the steps toward its realization, and the conditions of its actual realization must all be the subject of intensive studies.

5. A theory of rational distribution of powers. Horizontally, this refers to rational distribution of powers between party, government, the National People's Congress, the judicial organs, commercial and industrial enterprises, and mass and social organizations. Vertically, it refers to rational distribution of central and local powers in the various organizational structures. Centralization and decentralization of powers is a problem in every country. The key question to study is what rational limits to impose in the distribution of the various powers, so as to develop to the fullest extent the self-governing capabilities in the various organizational structures and prevent misuse of powers.

6. A theory on the rights of citizens. The people are the masters of the state. The people are the subject of democracy. All powers of the state organization and of the party derive from the people, belong to the people, and should provide for the welfare of the people. To have democratic government it is necessary to effectively guarantee the people's ability to exercise their democratic rights as masters of the state, and to guarantee the various rights of citizens, such as to participate in government, their right to equality, to freedom, to livelihood, and to the enjoyment of general welfare.

7. A theory on the relationship between government and party. The political structural reform must resolve the problem of separating party from government. This makes it necessary to study the functions of governments and parties, their roles, their working methods, and their relations to the state organs in other countries, and to study the various drawbacks resulting from "unison of party and government" and "having the party act as government," as well as to study the excellent results of "separating government from party."

8. A theory of government. A government is the executive organ of its state. For the structural reform of government administration it is necessary to study the changes in functions, in the structural establishment, administrative patterns and methods, experiences in reforms, and in their developmental trends as seen in various other countries, and to work out a scientific theory of "comparative governments."

9. A theory of personnel administration. China has much experience in personnel administration, and, moreover, a long historical tradition of civil officialdom, but has been slow and rather weak in the development of a theory of personnel administration. Intensified studies

are needed of the theory, principles, and methods in the systems of government functionaries in various other countries, to absorb all beneficial experiences, in order to promote realization of a system of government functionaries in China.

10. A theory of democratic supervision. How to enhance the supervisory system and guard against recurrence of tragedies like the "Cultural Revolution" must be a topic of intensified theoretical studies and an issue that must be thoroughly resolved institutionally.

11. A theory for democratic political legislation. Democratic government without legal guarantees is fragile and weak. It is therefore necessary to study the principles of legislation for democratic government, the essence of legislation, and legislative systems.

12. A theory of academic freedom. Development of a reform theory requires the guarantee of academic freedom. To rectify the "great weakness" in China's study and propagandistic education concerning the theoretical aspects of reform, it is necessary to guarantee implementation of the provisions of the constitution: "Citizens of the PRC are free to engage in scientific research, literary and artistic creation, and other cultural pursuits." This, of course, comprises freedom of speech, academic freedom, freedom of the press, freedom of artistic production, and freedom of publication. It requires carrying out the principle of "letting a hundred schools of thought contend" and demands strict prohibition of any manner of action that would violate this provision of the constitution.

9808

## NATIONAL AFFAIRS, POLICY

**Tax Bureau Director Calls for Improvement in Tax Collection System**  
40060052 Beijing ZHONGGUO SHUIWU [CHINA'S TAXES] in Chinese No 10, 12 Oct 87 pp 2-7

[Article by Jin Xin [6855 9515]: "To Meet the Needs of the New Conditions in Reform, We Must Raise Administration of Tax Collection to a New and Improved Level"]

[Text] Tax Collection Administration Has Made Remarkable Progress

Tax collection administration is an important link in the effort to ensure that tax policy is executed and that taxes are fully collected. Ever since the National Tax Work Conference, which was convened in 1985 and which proposed the strategy of establishing a scientific and tightly knit system for administering tax collection, tax agencies at all levels and the broad masses of tax cadres have focused their efforts on this goal; striven to adapt to continuing economic changes; aggressively investigated tax collection theory under the new conditions in the economy; perfected the tax collection system; improved collection techniques; achieved remarkable success in strengthening tax collection discipline, implementing tax policy, promoting production and completing and overfulfilling revenue-generating targets; and thus have contributed to socialist modernization.

1. We have made breakthroughs in our effort to establish a system of laws governing administration of tax collection and achieved preliminary results in our attempt to strengthen discipline in this work. Experience and actual conditions demonstrate that we would have no rules to follow, much less be able to use law to govern taxation, without a healthy system of tax law. Over the past few years, we have stepped up efforts to develop a legal system for tax administration, and we now have rules to follow and have put together a set of regulations governing the full gamut of this work, from control of items subject to taxation to the deposit of tax revenues in treasuries. The promulgation and implementation of the PRC Provisional Regulations Governing Administration of Tax Collection, especially, signified that tax administration had gotten on the right track. To ensure that these regulations are enforced, we drew up a number of separate, special regulations, such as the Provisional Rules Regarding Specific Problems in the Administration of Tax Collection, the Provisional Measures Governing Administration of Standardized Receipt Forms to Be Used Nationwide, the Provisions Governing Bookkeeping by Individual Industrial and Commercial Households, and the like. In addition, tax organs across the nation have formulated, in accordance with concrete local conditions, many practical and feasible regulations governing local tax collection and have played active roles in tax collection work. And to ensure that there are appropriate rules to follow in dealing with tax law

violations, the Supreme People's Procuratorate and the Ministry of Finance issued the Joint Circular on Further Crackdown on Tax Evasion and Resistance. All of these efforts have helped legalize, institutionalize and standardize tax collection.

2. The means and forms of administering tax collection have been progressively perfected, and tax collection has been steadily improved and become more efficient. We have been unable to expand our tax collection workforce as fast as our workload has grown. In response to this problem, tax agencies across the nation have adopted many scientific, rational, flexible and varied collection measures that are linked to the nature of the taxes they collect and have thereby ensured fuller collection of taxes and accumulated much experience in this work. Briefly summarized, these efforts include the following major areas.

Tax agencies in many regions have taken the initiative to contact and win the support and cooperation of relevant departments, with whom they have adopted joint measures to broaden tax administration.

We have adopted a dual approach to tax collection. To gain greater control over key sources of tax revenue, we have effected on-site collection in large and medium enterprises, and for individual, scattered tax sources, we have adopted a variety of approaches in accordance with the nature of those sources so as to reduce revenue leakage.

Tax agencies in a number of large and medium cities have adapted to the changing economic sources of tax revenue, restructured the administration of tax collection, reduced vertical barriers in tax work, integrated this work vertically and horizontally and thus reduced expenditure of manpower and material resources and improved efficiency.

A number of regions have separated collection and inspection and thus provided for a system of mutual checks and mutual encouragement among the various links in tax administration and markedly improved the quality of this work.

Some regions have begun to computerize tax collection and thus have promoted modernization of this work. In addition, tax assistance and protection networks have begun to be formed in many regions. According to statistics, there are already 300,000-plus people engaged in such work across the nation, and these people have become a major auxiliary force on the tax collection front.

3. Tax collection agencies have been progressively perfected, and front-line cadre ranks have been reinforced, thus providing an organizational assurance that tax collection will proceed smoothly. The General Taxation Bureau of the Ministry of Finance and most provincial-level tax agencies have established collection offices (or

sections), and prefectural, city and county tax agencies have improved their collection organs and taken the first steps toward the creation of a tax information network so as to keep abreast of conditions and promptly resolve problems in collection work. Meanwhile, thanks to the emphasis and concern demonstrated by the State Council, the workforce of tax departments and basic-level collection agencies has been steadily reinforced, thus greatly ameliorating the previous state of affairs in which "there were taxes but no one to collect them." To strengthen inspection and supervision of tax collection, many regions have rationally created a number of new organs, such as a inspector-auditor teams (which oversee tax collection and audit accounts), inspection stations established at commercial distribution centers and along vital transport lines, and the like. Especially noteworthy is the fact that procuratorial departments in a number of regions have established branch offices in tax departments, which move provides a major assurance that tax laws will be enforced and important support for tax collection cadre in their effort to perform their lawful duties. According to incomplete statistics, these new organs have uncovered nearly one million cases of tax evasion, underpayment and resistance since 1985 and thus have clearly proven effective.

In sum, after several years of effort, tax administration has basically gotten on the right track in terms of institutional, personnel and legal development and of actual work and theoretical research. Thus we have made gratifying strides toward the establishment of a scientific and tightly knit tax collection system that bears Chinese characteristics.

#### The New Situation We Face in Tax Collection Work

Thorough implementation of the party's policies of reform, opening up and invigoration have brought tremendous change to China's urban and rural economies, and as a result a variety of forms of economic activity, channels of circulation and managerial modes have appeared. Especially noteworthy is the fact that various types of integrated economic entities, contracted management responsibility systems, leasing systems and stock companies have appeared one after another and brought new vitality to enterprises. At the same time, however, these developments have created many new and complex problems for tax collection work. To respond to the new situation engendered by reform and to ensure that reform is conducted thoroughly, we have made major readjustments in tax collection, transformed a monolithic system into a diversified system in which many types of taxes are collected at various times, and steadily improved and perfected that new system. We should say that the new system is a product of reform, embodies the spirit of reform and thus basically meets the needs of the new economic milieu. Nevertheless, even though tax work has registered much progress, it still remains very much out of line with current reform and confronts many urgent new problems, which shortcomings can be summarized as follows.

First, tax collection is much, much more difficult now. As a compulsory means of redistributing income, taxes directly affect interest relationships among all sectors and quarters. Popular revulsion against the multifarious and onerous taxes and levies that were cruelly collected in old China and the prejudice of some of the masses against taxes still have not been dispelled, so from the outset the basic process of tax collection itself presents difficulties. On top of that, economic conditions are more complicated than before, a great variety of goods and services are now subject to taxation, tax reform has increased the number of tax types and expanded the regulative role of taxation and thus greater expectations have been placed on tax work. Yet we have not conducted tax law propaganda work extensively or thoroughly enough, the tax collection system remains inadequate, and there are a number of other social factors, all of which have made difficulties inevitable in tax collection.

Second, tax collection workload has expanded many fold, but the tax workforce has failed to keep pace with this expansion. In cities, our work in the past was limited primarily to collecting taxes from state and collective enterprises, whereas today many of the former taxpaying units have divided into several units, and we also have to deal with tens of thousands of individual industrial and commercial households. In the countryside, our work used to be centered on a very small number of commune and brigade enterprises, but today the number of township and town collective enterprises is growing rapidly, and village-run enterprises and rural individual households have increased by several tens of times. According to statistics, there are now 25-plus million taxpaying units of all types across the country, a rise of more than tenfold over the 1978 figure of 1.62 million. Thus each tax commissioner is responsible for collecting taxes from about 200 individual households or 10-20 enterprises. Our workforce is clearly insufficient. Meanwhile, ever since the second stage of the conversion from profit payment to taxation was completed, taxes have contributed more than 90 percent of all state revenues, the absolute amount of taxes collected has steadily grown and the task of generating more revenue has grown increasingly heavy.

Third, the tax collection system has failed to keep pace with the growing demands placed upon it. Although the system has made breakthroughs in its development over the past several years, it remains incomplete and is insufficiently responsive and durable. We lack the operational systems and tough measures needed to deal with new conditions and new problems and thus appear weak and ineffective. In addition, tax cadres fall far short of the quality required to meet the new needs of tax collection work, cadre expertise requires continual updating, and cadre political and professional quality is in urgent need of improvement.

The failure satisfactorily to resolve these new problems is reflected in the prominent shortcomings in our work: Tax evasion, underpayment and other violations of tax

law remain rampant; tax evaders are present to varying degrees in all areas of the country; tax resistance, refusal to pay taxes and even beatings and verbal abuse of tax cadres and attacks on tax offices have occurred from time to time; and the problems of unauthorized granting of tax reductions or exemptions and interference with tax collection have not been satisfactorily resolved. This, of course, is a very complicated issue and can only be resolved through a variety of measures and prolonged, arduous effort. We should fully affirm the success and progress that we have achieved, but we should also soberly appraise the problems and inadequacies in our work, adapt to new conditions, make renewed effort and improve our work in solid, down-to-earth manner.

#### We Must Fully Recognize the Importance of Tax Administration Work

In our work, we must both ensure that laws governing tax collection are enforced and collect all taxes fully and promptly through appropriately forceful means. From these desiderata, it is apparent that tax collection administration forms a very important link in tax work, and no one should have any doubt about the status and role of collection work. First, this work ensures stability in state revenues. The vast majority of the state's revenues is derived through tax collection, so the state depends on tax collection to ensure smooth implementation of reform and development projects. Second, taxation regulates income, production and consumption, but this function can be effective only when taxes are properly collected. Third, through tax collection, we not only effect but also test the correctness of tax policy, so tax collection provides a basis for decision-making on improving tax policy. Fourth, tax collection permeates every link of economic activity, and the prompt, accurate and extensive economic information that tax collection agencies assemble during the course of their activities benefits enterprise management, promotes increased output and helps enterprises strengthen their economic accounting and thereby improve their earnings. Moreover, in our day-to-day work, we can provide effective financial supervision, strengthen financial discipline, correct enterprise operational strategy and to a certain extent promote improvement in party work and social practices.

Generally speaking, once tax policy is set, tax agency work will largely be limited to the administration of tax collecting. China now has 20-plus sets of regulations governing the collection of business taxes, and these regulations can only be effected through tax administration. For the most part, the task of reforming the tax system and of setting tax policy is concentrated in the hands of the central government. The primary task of tax agencies at the provincial level and below involves enforcing tax laws and administering tax collection. County and city tax bureaus serve as the command centers for the front line of tax administration, tax stations represent the combat teams of tax collection work, and the broad masses of tax commissioners form

the main force in this work. Thus tax agencies at the provincial level and below should make improvement of tax collection administration their most important task and use every means to successfully effect tax policy and law. The most important standard in measuring the quality of the work performed by basic-level tax agencies is how well they administer tax collection.

At present, some cadres are confused about the effort to strengthen administration of tax collection. For example, tax agency leaders in some localities have no long-term plan or strategy for their tax administration work, which they emphasize only temporarily, when they have no other choice due to the occurrence of problems, which they do not try fundamentally to resolve, placing their hopes instead on the national tax inspection campaign that is to be conducted later in the year. This approach is incorrect. National inspection cannot replace day-to-day administration, which must be strengthened in a planned, step-by-step and down-to-earth way. There are also some comrades who fail to understand tax collection in its full context, believing this work involves merely "stressing revenues," whereas the effort to strengthen tax collection administration in fact is not only significant financially but also provides an important guarantee for and stimulus to the smooth implementation of reform. In addition, some comrades lack sufficient confidence that tax collection can be strengthened and are afraid of the difficulties they may encounter in this work, believing that tax agencies suffer interference from all quarters and that if tax collectors perform their lawful duties they may be subjected to verbal abuse or vengeance or beatings. These comrades see only the difficulties, not the benefits, involved in this work. In fact, these problems are now being resolved, thanks to emphasis placed on them by the State Council and by all levels of the party and the government. Tax collection work does confront many problems, but we will never accomplish anything if we do not pluck up our mettle and lay the groundwork for overcoming these problems and instead shrink back in fear.

Especially significant is the fact that some comrades do not clearly understand the relationship between reform and the strengthening of tax collection and erroneously believe that the latter will adversely affect the former. These comrades are particularly worried that lawful collection of taxes will impede implementation of the contracted management responsibility system. We believe that lawful tax collection is fully consistent with the effort to deepen reform. The principle of lawful tax collection is inalterable. This principle ensures that there will be a basic standard in the distribution relationship between the state and enterprises and thus is an important prerequisite for the smooth implementation of reform. Current tax laws are a product of reform and will continually improve as reform advances. The effort to deepen enterprise reform requires an external environment that promotes fair competition, and lawful tax collection is an important precondition for ensuring that enterprises can initiate competition on an equal footing;

attempts to use grants of tax exemption to initiate such competition are irrational. At present, the state-managed economy is undergoing a transformation from a system based primarily on direct control to one rooted primarily in indirect controls, employing such levers as finances, tax revenues, credit and prices to strengthen the macroscopic regulative system. Therefore, just as we say that opening up and invigoration constitute reform, we should also say that strengthening macroscopic control, too, represents reform. Leaders of tax agencies at all levels should liberate their thinking and stress tax collection work with an open mind. We must bravely experiment with all measures facilitating correct implementation of tax policy and law.

In sum, overcoming various types of confusion concerning administration of tax collection and increasing understanding of the importance of this work are key to improving this work.

#### We Must Raise Tax Collection Work to a New Level

The top priority in tax work is that we strengthen administration of tax collection and give full play to the role of taxation in generating revenues and in effecting macroscopic control and regulation of the economy so as to meet the needs of the new conditions engendered by reform. Tax agencies at all levels and the broad masses of tax cadres must meet new challenges with new ideas and new attitudes that are in tune with the times, and raise tax collection work to a new level.

In view of current conditions in our work, I believe that we should strive to make breakthroughs in the following areas over the next 2 or 3 years.

1. We must effectively curb tax evasion. Tax evasion is a complicated, intractable social malady, and the struggle between this malady and lawful tax collection will be protracted. To effectively bring tax evasion under control, we must closely integrate national tax inspection campaigns and day-to-day tax administration. National tax inspections, are essential, of course, but even more important is that we strengthen the basic work of daily administration and inspection of tax payments. To strengthen this latter work, we must commence with the following areas. First, we must have legal control measures. That is to say, we need legal measures and legal sanctions appropriate to each degree of seriousness of the crime. We must, as prescribed by law, sternly punish and stop showing tolerance for serious cases. Second, we must establish a tightly organized and complete system of tax administration and use this system to gather full information on the production, operations, accounting and distribution of all taxpaying units so as to ensure that there are no loopholes to be exploited. And we must promptly ferret out and punish any act of tax evasion. Third, we must vigorously publicize and explain tax laws, demonstrate to people that paying taxes is glorious

and evading taxes is shameful, and raise citizens' awareness of tax laws and inculcate the concept of paying taxes. We must strive to use these measures to greatly reduce tax evasion among enterprises and individual households.

2. We must standardize tax collection work. This requires that tax personnel observe established rules when they carry out their public duties and that tax payers fulfill their legal obligation to pay taxes on their economic activities. After many years of groping, we have completed most of the regulations needed to govern of tax collection, and these regulations deal with such things as tax registration, determination of tax obligation, tax counseling, self declaration of tax liability, tax collection, audits of tax payments, and prosecution and punishment of tax law violations. These regulations reflect the rules and patterns of tax work and have been affirmed in the form of law in the Provisional Regulations Governing Administration of Tax Collection. Nevertheless, it should be noted that these regulations have not been properly effected and that they merely summarize general rules and patterns in tax collection work. Thus, when enforcing these regulations, we must make them more concrete and specific and supplement, perfect and develop them in accordance new needs engendered by reform. In the near future, we should emphasize the following areas in our effort to standardize tax administration. We must formulate, in accordance with the principles of the Provisional Regulations Governing Administration of Tax Collection, different collection measures for differing conditions among taxpaying enterprises, individual households and scattered tax sources in urban and rural areas, and we must continually improve these measures. We should establish, based on the characteristics of various types of taxes, industries and economic forms, different tax subcategories and economic subsectors and even create special collection systems and measures for key products and tax revenue sources (such as alcohol, tobacco, tea and the like). Generally speaking, tax agencies in all localities must conduct a general survey of tax registration once each fiscal year and carry out regular tax audits. Tax obligation determinations must be carried out whenever necessary and should be promptly revised or redone whenever tax laws are amended or tax payer operations change. We must strive in a solid, down-to-earth manner to ensure that within 2 or 3 years accounts are established for more than 70 percent of all individual households for which such accounts are required and ensure that different types of accounts are created for different types of conditions. We must conduct on-site tax collection in all large and medium enterprises having complex tax obligations, and we must establish a stringent system of regulations governing this work. Once each quarter and whenever there are new regulations to enforce, tax commissioners must hold clinics to explain the tax responsibilities of all households and units for which the commissioners are responsible, and the commissioners must keep complete records of their collection administrative work. Standardized receipt forms issued by tax

agencies must be employed for all productive activities, and general or random inspection of these receipts must be conducted at regular intervals or irregular intervals. We must have a complete set of procedures and a stringent system for handling vouchers for the receipt, use, expenditure and deposit of all tax funds. And tax agencies in every province, autonomous region, municipality and cities with provincial-level decision-making authority must submit semiannual written reports on their tax collection work to the General Taxation Bureau.

3. We rely upon the support and cooperation of relevant departments to help us broaden tax collection administration. Taxation affects a wide range of activities, so it will be very difficult for us to fulfill our increasingly heavy tasks if we depend solely upon our own isolated struggle. Therefore, we hope that we can obtain support and cooperation in the following areas within the next 2 years. We must actively request procuratorates to place branch offices (or sections or procurators) in tax agencies at the county level and above. We must establish tax or joint inspection stations at all depots (train and bus), piers, airports and vital transportation lines that are major sources of tax revenue. We must establish tax collection teams or joint industrial, commercial, public security and tax offices in large marketplaces. Tax agencies at the provincial level and below must establish tax inspector-auditor teams (to inspect tax collection and audit accounts). On-site tax collection teams (or collectors) should be stationed in all large and medium enterprises in which such teams (or collectors) are required. Leaders of tax agencies at all levels should stress and strengthen leadership in this work and take the initiative in obtaining support and cooperation from relevant departments. Localities that have already established the aforementioned organs must conscientiously summarize their experience in this work and strive to reinforce and improve these organs. Localities that have not established these organs should actively try to lay the groundwork for the creation of such organs as soon as possible. When we do establish these organs, we must adhere to the principles of flexibility, capability and efficiency and draw up relevant operational rules, procedures and measures.

In addition, all localities must gradually increase the proportion of individual and scattered taxes that are collected or withheld on behalf of tax agencies, and we must establish a practical and feasible system of regulations to govern these operations. We must also formulate effective measures for collecting taxes in marketplaces and on mobile items. Accomplishment of these objectives will require the vigorous support and cooperation of relevant departments and much difficult and painstaking work by tax cadres and tax agencies at all levels. So long as we strive together, these objectives surely can be achieved in the near future.

Another very important element in our effort to broaden administration of tax collection is popular tax assistance and protection and the establishment and improvement

of such networks. Many localities have devised good new approaches to and summarized their experience in this area. We must enhance and develop these approaches, disseminate them as quickly as possible and gradually create a finely reticulated tax assistance and protection network that extends from streets to villages, from enterprises to individual households and from markets to vital transportation lines.

4. All localities must institute target management in tax collection work. Over the past several years, a number of localities have instituted a variety of target management responsibility systems and have thereby effectively mobilized the initiative of tax commissioners and yielded clear results. These various systems include revenue targets, targets to increase revenues through promotion of expanded production, targets for the benefits to be gained through tax reduction and tax exemption, targets for reducing tax evasion, and the like. These targets have clarified the objectives and responsibilities of tax commissioners. We request that all localities work to spread this system throughout the country and link it to actual local conditions. In view of our experience with this system, we believe that we must be especially attentive to the following issues. First, as for the relationship between policy and our tasks, the latter is to serve the former. Second, taxes that should be collected must be collected as quickly as possible. Third, we must firmly eschew collection of taxes that should not be collected. Fourth, we must not set unrealistic targets for quality in tax collection work. Fifth, in trying to increase revenues by stimulating production, we must strive to support, assist and promote production but avoid overzealousness in this area. Sixth, we must emphasize that, in deciding grants of tax reductions or exemptions, tax agencies must stay within their prescribed authority, give greater consideration to and improvement handling of the benefits resulting from such grants and firmly prevent scrambles for tax reductions or exemptions. Through target management, we can truly improve tax administration.

In addition to the four areas discussed above, we must also adopt practical and feasible measures to improve the political and professional quality of tax cadres, stress study of the theory of tax collection and conduct pilot tests of computerized tax collection so as to meet the needs of this new age.

The above are the objectives we must struggle to achieve or basically achieve in the near future and the measures that are required to achieve those objectives. The long-range goal of this work is to gradually establish, by accomplishing these short-range objectives one by one, a scientific and tightly organized system of administering tax collection. Thanks to our investigation and practice over the past several years, the outline of this system has become increasingly clear. That is, the system should be a comprehensive one that embodies the optimal integration of a sound system of laws and regulations, a well

organized administration, standardized rules, modernized procedures, a tightly knit network of supervision and control, and training of quality cadres. This objective can surely be achieved so long as we are full of confidence and advance toward the objective in a realistic way, with our feet planted firmly on solid ground.

This year will soon draw to a close, but the remaining weeks represent the "golden" period in our work, for most revenues are collected and delivered to the national treasury during this time of the year. This is also our busiest time of the year, for national inspection of tax collection and finances is about to commence. This campaign is an important means by which we can strengthen tax collection discipline, curb tax evasion and increase revenues, so we should go all out and stress the campaign. We must follow the Decisions of the State Council, go all out, work unremittingly and strive to collect this year's taxes in full and to raise tax collection work to a new level.

12431

**Journal on Allocation of Responsibility**  
HK301111 Beijing JINGJI YANJIU in Chinese  
No 11, 20 Nov 87 pp 53-58

[Article by Jiang Xiaowei (3068 2556 5633) of Economic Management Research Center of State Economic Commission: On the Formation of a System of Responsibility, Power and Interest for the State and Manager"]

[Text] The target of the reform of the urban economic structure in our country is the formation of an operation pattern for a planned commodity economy. This pattern demands that in the operations of the national economy the state and the enterprises separately form their own responsibility, power and interest system and form responsibility, power and interest relationships between the state and the enterprises. This article attempts to probe into this problem in the combination of both theory and practice.

#### I. Operation of Socialist Reproduction Requires the Formation of an Economic Mechanism for the Unification of Responsibility, Power and Interest.

The basic units in the operations of socialist reproduction are the enterprises which serve as the combined laboring bodies. The organic whole of the reproduction processes of the enterprises constitute social reproduction.

The enterprises' reproduction process requires the combination of the means of production and the workers; in the reproduction process production of the products is through the workers' exerting their live labor and consumption of the materialized labor and these products must be realized; the continuous progressing of the reproduction process requires due compensation be made for the consumption of labor. Unification of these

three factors in the reproduction process constitutes the condition and results of the operation process in reproduction and thereby forms the responsibility, power and interest system of the manager of the enterprises, and also shapes the responsibility, power and interest system of the state, and the reciprocal relationship between them.

1. The form of the combination of the means of production and the workers is the basis of the economic interests in the operation of reproduction.

Any society engaging in production activities must take the combination of the means of production and the workers as the precondition. "Regardless of the form of society engaging in production, workers and means of production are from beginning to end the factors in production. However, when the two are in a separated condition they are factors of production only in the realm of possibility. Only when production is undertaken then their combination is necessary" (Footnote: Marx' "Das Kapital," Vol 2, People's Publishing House, 1975 edition (same below), p 44). Under different social systems, the form of combination of the means of production and workers is different. In a capitalist society, combination of the workers and the means of production takes their separation as the starting point, the form of the existence of capital production comes about from the capitalists joining together and the result is that the surplus value is brought to the capitalists. Under socialism the public ownership system determines that the means of production belongs to the ownership of the workers who effect the combination with the means of production in their capacity as owners of the means of 49%:58%. Nevertheless, determination of the socialist public ownership nature of the means of production does not mean that the form is perfect since the form of the public ownership system of the means of production is still constrained by the development level of the social productive forces. With the current development level of the productive forces determining the form of combination of the workers and the means of production internally in the socialist public ownership system of the means of production, the enterprises serving as the grass-roots units in social production are still a kind of immature labor combination bodies. This is different from the labor combination bodies in the supposition of Marx and Engels. The socialist labor combination body in the supposition of Marx and Engels is a unitary type of labor combination body of a society-wide scope and under the preconditions of a high degree of socialized development of production and the means of production under the joint ownership of whole society. On the other hand, in our country, the form of the actual socialist public ownership system. With the state exercising full ownership of the means of production and the enterprises having partial possession and the right of handling the means of production, this forms the pattern of the state having the entire ownership of the means of production and the enterprises being full managers of entrepreneurs. Since in production the status and the

role played by the state and the enterprises are different, this determines that they possess different interests. With the enterprises taking the production organization form enabling the combination of the workers with the means of production, it is inevitable that independent interests will be produced which are different from those of the entrepreneurs who are also owners of the means of production. In the initial stage of the socialist reproduction movement, the special combination form of the means of production and the workers is the basis for the realization of the economic interests of the state and of the entrepreneurs in the reproduction operations.

2. Realization of the actual ownership right of products is the manifestation of the power of the owner and the entrepreneur in the reproduction operations.

The process of reproduction's continuous movements is a consumptive process of the workers and the means of production. The results of the consumption are crystallized in the products. hence, the realized substance in the reproduction operations is the formation of the products. When examining the process of the social reproduction movement, Marx took as the starting point "society's provision and supply of commodity products in a year's time" and believed that starting from there "it will be possible to clearly see how the process of the reproduction of social capital is being carried out (Footnote: Marx' "Das Kapital," Vol 2, p 435). Thus, the realization of products carries a decisive significance in the reproduction movement.

In the process of socialist reproduction, the state as owner of the means of production, naturally demands realization or results in the products which consumed the means of production in the course of the reproduction. However, the workers themselves, in the process of the consumption of the means of production owned by the state, likewise go through the process of consuming and expending their own labor force. This laboring process is done and completed in the form of the enterprise organization, being a sort of consumption and outlay of combined labor with the consumption of the combined labor being crystallized in the products and forming a part of the value of the products. Due to the special form of the combination of the workers and the means of production under socialist conditions and the enterprises, being the entrepreneur or manager of the means of production, possessing special interests, the realization of the value of the products formed by the consumption of the combined labor helps form the ownership relations of that portion of products produced by the enterprise, similar to the right of the state as the owner. But here, its manifestation is a sort of power relationship of the entrepreneur or manager. Thus realization of the products is a manifestation of the power of the state and of the entrepreneur in the reproduction operations.

3. In the reproduction operations responsibility is manifested in the compensation demand.

The process in the reproduction movement is a consumption process of the means of production and the labor force of the workers and the realization process of the products is at the same time the compensation process of value and real goods. In the reproduction movement, compensation for consumption of the means of production and compensation for consumption of labor force must be completed and both of these are manifested in "a movement formed in the value itself of the products resulting from the exercise of the gross capital's functions" (Footnote: Marx' "Das Kapital," Vol 2, p 437.) This movement is the compensation of value and real goods and without compensation reproduction has no way to proceed. Reproduction operations are usually completed inside the enterprise; hence compensation is a responsibility that must be borne by the party undertaking the reproduction operations, that is, the enterprise, in ensuring the continuous carrying on of the reproduction. As owner of the means of production the state must supervise the enterprise's fulfillment of compensation of the production factors. This is a responsibility that must be borne by the state in ensuring its own interests.

In theory, regarding the combination of the means of production and the workers in the reproduction operations, the realization of the products and compensation in the reproduction operations, we can study them separately but in the actual reproduction operations these three constitute an indivisible and united body and none of them should be lacking. Hence, in the reproduction operations it is necessary to form an integrated economic mechanism which unites responsibility, power and interests.

In the reproduction operations, the state and the enterprise process a different status, occupy a different position, and play a different role. Hence the system of responsibility, power and interest manifested is also different. In participating in the reproduction operations, the state plays the role of owner of the means of production and the enterprise acts as the manager or entrepreneur of the means of production. Reproduction operations may be divided into two layers: social reproduction and enterprise reproduction. The enterprise being directly in charge of the reproduction operations, it must, through the realization of the products, bear the responsibility of fulfilling the compensation for the consumption involved in the reproduction operations and also the responsibility of expanding the input of the reproduction funds. Hence, it must possess the corresponding power and interests and thereby form the enterprise's system of responsibility, power and interest. The organic total of the reproductions of unitary enterprises constitute social reproduction. With the state being the general owner of the means of production, it bears the responsibility of organizing and managing social reproduction. And in coordination with this responsibility are the power of supervising, coordinating, guiding and controlling the enterprises' reproduction operations and the interests of the owners and the

entrepreneurs, thereby forming the state's system of responsibility, power and interest. Thus, through dissecting the reproduction operations, we are in a position to discover what constitutes the state's and the enterprises' separate and integrated system of responsibility, power and interest and the reciprocal liaison of the state's and the enterprises' responsibility, power and interest.

## II. Our Country's Existing Reproduction Operation Structure Impedes Formation by the State and the Enterprises of a System of Responsibility, Power and Interest

The special feature of the reproduction operation structure in our country is that it is of the divisional type, that is, both the state and the enterprise find themselves in the midst of the enterprise reproduction operation, the operations of the enterprise's reproduction are split up, government departments represent the state in performing the functions of input and output in the reproduction process (investing funds, allocation of raw materials, issuance of mandatory production plans, allocation of products) and the enterprise performs the simple production functions (organization and coordination of the enterprise's production and production management). After even several years' of reform in expanding the enterprises' decisionmaking power, this type of structure in reproduction operation has made no change in its essential character. Such a form of operation pattern which merges into a single body social reproduction and enterprise reproduction necessarily produces defects:

1. Confusion in the relations and limits of the responsibilities, power and interest of the state and of the enterprise. An enterprise's reproduction operation should be an integrated and unified body and the enterprise should engage in three tasks, these being: engaging in compensating simple reproduction, enlarging reproduction input and continuously raising the standard of living of the enterprise's staff members and workers. These three tasks must be completed through the enterprise organizing production and realizing the production of products. By so doing the enterprise can form an integrated responsibility-power-interest system. If an enterprise does not bear an integrated reproduction operation then the enterprise cannot have integrated responsibilities, power and interest. For example, under the conditions of an enterprise's production tasks being subjected to the state's mandatory planning, the products turned out by the enterprise will likewise follow the allocations planned by the state and the enterprise cannot handle them freely in the market. In such a case, the state, when organizing production, will consider only the output quantity and will not pay too much attention to the products' quality and their renovation. The stock-piling of products and their poor quality will have little effect on the enterprise and it is for this reason that despite repeated orders from the state to improve the products' quality, the enterprises are hardly concerned. For another example, with the state grasping the power of investing in expanding the enterprises' reproduction and playing the role of organizer and manager of social

reproduction, it is inevitable that the state will consider the use of funds from the angle of social reproduction as a whole and the chances are that new enterprises are established at the expense of the old enterprises with the result that the latter's reproduction operations will progress in a depressed and withered manner. The state's participation in the enterprises' reproduction operations can develop only a relationship of reciprocal dependence and not one of mutual restriction, but in a commodity economy mutual restriction is a special feature of the utmost importance. If in the whole national economy the various economic relations should lack a restrictive nature then they cannot have a relatively strong vitality.

2. Extreme difficulty in determining the state's system of responsibility, power and interest. If the state takes part in the micro-economic operations, first of all it will fall into the pit of contradiction between two different functions. When the state becomes the manager or controller of the social reproduction operations, then the functions of such a controller require that it must grasp the objective laws of the social reproduction operations and employ various kinds of economic levers to regulate the social reproduction operations, but in also assuming part of the functions of the producer the state cannot but directly enter into the enterprise and intervene in the enterprise's production activities. Thus, in managing the whole social reproduction it cannot, at any time, free itself from directly intervening in the microeconomic reproduction operations and does not bear the responsibilities of the microeconomic reproduction operations. Besides, the state's ability to employ indirect measures to control macroeconomic operations is also rather weak.

Second, the state's functions will be weakened. A high degree of development of socialized large-scale production determines that the state takes up the functions of control, but ensuring the orderly movement of social reproduction requires a macroeconomic controller. Thus, the state, concurrently performing its political functions, must also take up the functions of economic control or management. But in essence the state's participating in the microeconomic operations is tantamount to refuting its own functions and lead to their weakening. The results are: the state utilizes its supersocial special power to centralize in itself power and interest but repels the restrictions of responsibility, thus making it difficult to affirm or determine the state's system of responsibility, power and interest. Consequently the following conditions appear in the state's management and control of social reproduction: (1) The state's inability to delegate to lower levels what should be so delegated nor to control what should be controlled; (2) the transparent degree of the state's macroeconomic policy being low, effective regulation being insufficient, and the state's direct intervention being excessive; and (3) the government's administrative departments becoming too large, the departments in charge of economic levers becoming relatively small, and all in all inability to form a highly effective indirect control.

3. Difficulty in forming the enterprise's system of responsibility, power and interest. The state's participation in microeconomic activities makes the enterprises subordinate to the government departments unable to form their own system of responsibility, power and interest. This will slacken the enterprises' reaction to the state's policies and deprive them of a self-regulating mechanism.

Pushing the reform of the economic structure needs to start from economic operations and seek a new economic mechanism. This calls for, through the state and the enterprise being of two different economic operation layers of one taking charge of social reproduction operations and the other handling the enterprise's reproduction operations, demarcating their own responsibility and power limits and, through the relations between these two layers of reproduction operations, forming a reciprocal liaison between the state's and the enterprises' separate systems of responsibility, power and interest, enabling the state and the enterprises to form between them relationships which possess the special features of a commodity economic and which help them to rely on each other, advocate but also restrict each other and ensure and protect each other. III. [Roman Three] Transitional Form in the Formation of the State's and Entrepreneur's System of Responsibility Power and Interest and a Line of Thought on Making Further Reform [subhead]

In realizing the above-mentioned supposition on the relations of responsibility, power and interest between the state and the enterprises, it is necessary to go through a transitional stage. After several years of piloting the reform, we have selected the form of the contracted operational responsibility system. As the transitional form, it possesses the following special features:

1. By means of closely adhering to the distribution principles of "rigid adherence to the contracted base figure, definitely ensuring the delivery to the state of taxes and profits, retaining more in the event of surplus earnings but making up with one's own funds for any deficit or loss," the contracted operational responsibility system clearly demarcates the interest limits between the state and the enterprises and, using the contractual form, protects the realization of the interests of the state and of the enterprises and determines to whom they should belong. hence, in comparison with the distribution system of making a proportionate division as practiced in taxes-in-lieu-of-profits, the distribution form under the contracted operational responsibility system more clearly marks the distribution limits of the profits and under it the enterprise can easily discern what its actual profit income is as well as the ratio of future increased profit earnings it may receive. Moreover, the transparent degree of the state's policy vis-a-vis profit distribution is clearer while the enterprise is more sensitive in responding to the profits or losses in the general income.

Naturally, under the contracted operational responsibility system, realization of the enterprise's benefits is determined by bilateral negotiations between the state and the enterprise concerned. It is by no means a standardized distribution form. In my opinion, seen from the existing conditions of the enterprises and the actual practices through the past years in the reform of taxes-in-lieu-of-profits, we must pass through diversified distribution forms before transition can be effected to a standardized distribution structure. Originally, we had thought that by means of the practice of taxes-in-lieu-of-profits we could create a standardized distribution structure for the enterprises. However, due to various factors such as the vast differences between the concrete conditions of our country's enterprises, the uneven economic development in the various regions, the absence of a market system and the prices still not being put in order, as soon as the practice of taxes-in-lieu-of-profits made its appearance, it immediately carried with it the irregular special feature of the regulation tax of fixing separate rates for different households.

In enforcing the practice of taxes-in-lieu-of-profits, due to the state's policies having to be continuously readjusted following development of the reform, which naturally affected the interests of the enterprises, the state had to adopt such policies as tax-reduction and tax-exemption. It can thus be seen that it is not realistic, in fact not possible, to standardize in one stroke the reform of the distribution system, and that resorting to diversified distribution forms constitutes the preparatory stage and the precondition for setting up a standardized distribution structure. The contracted operational responsibility system was precisely enforced on the basis of the scheme of taxes-in-lieu-of-profits and actually provided the condition and prepared the way for further reform of the existing taxation system. In general the contracted base figure of the enterprises is determined by the actual figure of the income tax and the regulation tax delivered to the state in 1986 while the portion of the circulation tax is not incorporated into the contracted base figure and the enterprises have to pay the tax according to the regulations. The method of determining the contracted base figure retains the workable portion of the scheme of taxes-in-lieu-of-profits and by means of the contractual form helps to solve the problem arising from the fact that in the scheme of taxes-in-lieu-of-profits the interests subjected to proportionate distribution between the state and the enterprises are usually confused in demarcation and unclear in regard to the state of ownership. The method thus protects the income of the state and the income of the enterprises. This in fact has reference to the distribution method of "tightly contracting for the base figure ensuring the upward delivery of taxes" advocated in the distribution principle under the contracted operational responsibility system. In this distribution principle, we further advocated two more points, namely, "privilege to retain more if the earnings exceed the target and responsibility to make up for any losses or deficits." This in effect injects into the relations between

the state and the enterprises the principle of the commodity economy and manifests the special feature of the target pattern in the reform of our country's economic structure which is that the enterprise serving as a relatively independent producer of commodities must possess independent economic interests and be solely responsible for its own profits and losses. Combination of the two points of "tightly contracting for the base figure and ensuring the delivery of taxes to the state" with the other two points of "retaining more if there is an excess in earnings and making up, our of one's own, for any deficits or losses" makes the contracted operational responsibility system become a transitional form in the conversion of the new and old economic structures.

2. Through the unification of the enterprise's contracting for and the state's contracting to and guarantee, the contracted operational responsibility system initially determines the responsibilities borne by the state and the enterprise in the reproduction operations. In the contracted operational responsibility system, the enterprise is the principal body who contracts for and is the one who actually undertakes the contracting burden. The enterprise signs the contract with the governmental department representing the state. At the same time this determines that the enterprise, in order to realize its own economic benefits, must bear the responsibility of ensuring the fulfillment of the contract or agreement. As the other party of the agreement, the governmental department takes up the responsibility of providing the necessary external conditions for the enterprise to fulfill the agreement so as to ensure the smooth fulfillment of the agreement and to obtain its share of the economic benefits. Thus, the contracted operational responsibility system enables both the state and the enterprise to simultaneously take up the burden of their respective responsibilities on the basis of their own benefits.

In order to ensure the fulfillment of the contracted tasks and to continuously increase its own benefits, the only way open to the enterprise is to cast its eyes inward and to intensify the reform of its internal operation and management structure. First, the leadership structure of the enterprise must be reformed. As for our country's large and medium-sized enterprises owned by the whole people, due to their nature, their scale of operation and the position they occupy and role they play in the national economy, actually they are enforcing the system of the enterprise's collective contractual operation. Contracting enforces the plant head responsibility system and endows the plant head with the management power while the party organization plays an ensuring role and along with the employees' representative congress exercises the supervisory power. The enterprise is a legal person and the plant head is the legal person's representative. Transforming the original leadership form of the enterprise enforcing the collective leadership system but without having any responsible person and substituting for it a new type of enterprise leadership structure which makes the plant head take up the responsibilities and

possess independent power but still under restraints and restrictions is in reality the nucleus of the internal reform of the enterprise.

With this reform as the center, we should transform the antiphonal type of an administrative organizational structural between the enterprise and the governmental administrative departments and establish an organizational structure in harmony with the enterprise's production and operations; we should alter the enterprise's backward management form and set up in their stead a modernized and scientific management system; we should change the enterprise's distribution system which suffers from lack of restraint, and install in its place a distribution mechanism for the enterprise's internal gross income and also an income distribution system which can arouse the employees' enthusiasm; and transform the enterprise's labor and personnel system and introduce a competitive mechanism to the end that the staff members and workers can, under the conditions of equal opportunities, develop competition internally in the enterprise and so that they can put their enthusiasm onto the best play. After this series of coordinating reforms, we can establish a new type of socialist enterprise which is efficient, is effective, possesses force of pressure, has vitality and suits the demands of the development of a commodity economy.

After enforcement of the contracted operational responsibility system, the key for the governmental departments in ensuring the fulfillment of the agreement lies in creating the external environments for the enterprise's production and operations. This will require of the governmental departments to shift their functions. In the contracted operational responsibility system, the government departments, first of all, by means of formulating the industrial policies and regulations for the industries and trades and circulating and announcing economic news and intelligence, guide the enterprises in their production, investment and development. Second, through adopting various economic regulatory measures to help the enterprises in their production, investment and development; and, finally, push the transformation of the governmental departments' functions to the front stage of the reform, thus ensuring that the functions of the governmental departments will keep the same pace with the reform of the enterprises.

3. Enforcement of the contracted operational responsibility system clarifies the demarcation line between the interests of the state and those of the enterprises and makes their responsibilities definitely clear. In the transformation of the governmental departments' functions, the departments in part retract from participating in the enterprises' production and operation activities and shift their functions to attending to the demands of social reproduction operations. Fixing or determining the interests of the enterprises enables them to obtain a definite capacity in self-accumulations and self-transformation as well as a part of the decision-making power in reproduction. In fact enterprises such as the Capital Steel

plant and others which have enforced the contracted operational responsibility system have developed step by step precisely through making self-accumulations. In the course of the promotion of the contracted operational responsibility system, intensifying at the same pace the government's functional departments and the enterprises has formed the initial shape for the responsibility-power-interest system of the state and that of the enterprises.

Naturally, enforcing the contracted operational responsibility system still cannot take us to the destination of reform of the whole economic structure. It is only an essential transitional form, able to create definite conditions for the coordinated reform of the economic structure. In order that the contracted operational responsibility system can play an even greater role in the reform of the economic structure, aside from having it effect its own self-perfection, we must still further and importantly consider solving the following several problems:

1. Perfecting the taxation system and establishing a standardized distribution structure for the national economy. In the new economic structure, the realization of the separate benefits of the state and of the enterprises must go through the markets, but realization of the benefits must be completed by means of distribution. In the course of the reform, we need to solve the distribution of the benefits through frontal negotiations between the state and the enterprises, but obviously such a distribution form cannot be adopted all the time. Therefore, the establishment of a standardized distribution structure is a key state in the reform. It must be solved through improving the taxation system. And a perfect taxation system embraces two phases: 1) Establishment of a taxation system, and 2) Establishment of a tax collection system.

(1) Establishment of a taxation system. First, on the basis of the operational pattern of a planned commodity economy and in accordance with the different demands of the two production layers of social reproduction and enterprise reproduction, we demarcate the duties and powers of the three parties comprising the state, the localities and the enterprises and, based on the duties and powers of each, a rational distribution is made of the profits created in the enterprise between the state and the enterprise and a tax divisional system is carried out between the state and the localities.

Second, guided by the concept of invigorating the enterprises, we must determine a rational tax rate, that is, in determining the tax rate, in addition to considering the state's interests we must also consider the ability to bear on the part of the large and medium-sized enterprises in our country and also consider the problem of equality in taxation among enterprises of the same industry, trade or category. Finally, the taxation system must be standardized. Taxes as economic regulatory levers can directly regulate the interests of the three parties of the state, the regions and the enterprises, and can produce

enormous effects. Therefore, the taxation system must be standardized and must be relatively stable in character so as to raise the visibility of the enterprises in regard to taxes. Seen from the past several years' practices in the scheme of taxes-in-lieu-of-profits, a tax system which makes many changes weakens its regulatory role on economic operations. Take for example the readjustment of the bonus tax. In this case the enterprises react by utilizing various other measures to grant awards and bonuses in disguise which has greatly reduced the role of the bonus tax in regulating the income of the staff members and workers.

(2) Establishment of a tax collection system. In enforcing the two steps in the scheme of taxes-in-lieu-of-profits, the weakest point is the unhealthy state of the system of tax collection and tax control. First, the small number of tax collectors and administrators; second, the poor quality of such personnel since a large proportion of them consist of high school graduates who have not gone through any specialized training; and third, the lack of a legal protection system. The result: Each year we have been compelled to conduct large-scale tax inspections to solve such problems as tax evasion. The fact that each year cases of tax evasions amount to several hundred million yuan have been discovered amply attests to the weakness in our tax collection and administration system. In establishing a strong tax collection and tax administration system, the most urgent tasks are to increase the number of tax collectors and tax administrators, the improvement of their quality, and setting up a rigid legal protective system.

2. Perfecting the investment structure and clearly demarcating the responsibilities of the state and of the enterprises. Since investment consists of the compensation and re-input in the enterprises' reproduction operations, it is an irrefutable responsibility of the enterprises as the production organizers and is also the responsibility of the state which as the manager of social reproduction must attend to the compensation and re-input of funds called for in the entire social reproduction. Due to the state and the enterprise being located in two different layers of reproduction operations, they bear different responsibilities. In perfecting the investment structure, first of all it is necessary, in accordance with the state and the enterprises being located respectively in the layer of social reproduction and that of enterprise reproduction, to clarify the investment responsibility that the state and the enterprises must each bear. In administering the enterprise reproduction operations, the enterprises must complete the technical transformation, investments in renovation of equipment, and investments in the expanded reproduction necessary for the enterprises' development. All other investments which do not come under the administration of enterprise reproduction such as investments in construction of large-scale and major projects, urban basic facilities and building of dormitories and residences should all come under the control of the state (central and local governments). Second, the state should, following the demarcation of

investment responsibilities, delegate the investment power to lower levels and, in its capacity as the macroeconomic controller, take up the tasks of regulating and controlling the gross volume of investments and guiding the direction of the investments, all of which may be carried out through the markets. Third, the government departments should transform their functions, formulate scientific economic and social development strategies and plans, and set up systematic statistical, forecasting, evaluating, supervisory and controlling bodies. Fourth, it is necessary to gradually raise the quality of the government's working personnel and make them learn the methods of indirect economic management. Fifth, the enterprises should establish internal distribution mechanisms for their gross earnings and also an evaluation system for measuring the investment benefits; they must ensure that the enterprises' funds should be used on the input in expanded reproduction and on other inputs of a rational nature.

3. Perfecting the market structure and ensuring the realization of the responsibility, power and interest of the state and the enterprises. In the reproduction operations, the completion of the responsibility, power and interest of the state and of the enterprises must, in the final analysis, pass through the realization of the products and realization of the products must pass through the markets. This necessarily requires the establishment of a perfect market structure. First is the establishment of the market system itself. This includes not only the consumer goods market but also the means of production market, the money market and the labor market. Second, the state, using prices as the center, establishes a controlling system to regulate and control the markets. Third, establishment of a guiding system whereby the state can determine the strategic plans, industrial policies, technological policies and, through the currency policy and financial policy, guide the enterprises to operate in accordance with the general operational target of the national economy. Fourth, establishment of a microeconomic system which has the capacities of reacting sensitively to market signs and signals, and making self-regulation, self-development and self-transformation. Only when the macroeconomy and the microeconomy and the establishment of markets can coordinate with each other is it possible to form an integrated market system and achieve the reform target of the state guiding the markets and the markets regulating the enterprises. Nevertheless, the establishment and perfection of the market system requires a complex procedure. It is impossible to set up at the same pace the various categories of markets. How to systematically establish them still requires a further study.

Enforcement of the contracted operational responsibility system creates the conditions for the formation of the separate systems of responsibility, power and interest of the state and the enterprises. We should grasp this opportunity and, starting from the basic point of invigorating the enterprises, earnestly study the separate responsibility, power and interest systems of the state

and of the enterprises in the operations of the national economy as well as the reciprocal relations of these two systems. On that basis we should then proceed systematically with the coordinated reform so as to speed up the progress of the reform of the economic structure of our country.

#### Price Reform Reviewed

40060010 Beijing JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese  
No 4, 20 Jul 87 pp 3-6, 25

[Article by Zhu Min [2612 3046], of the General Office of the State Price Bureau: "An Overview of Price Reform in 1986"]

[Text]I. Reform of the Price System Is Advancing amidst Consolidation and Improvement.

In early 1986, the State Council decided to implement an "eight-character program of consolidation, assimilation, supplementing and improvement with respect to price measures that were instituted in previous years and, for reforms that had not yet been initiated, to effect controlled readjustment of only a handful of especially irrational prices. Since prices were stable in the first half of 1986, the State Council decided at the middle of the year to lower the foreign-exchange rate of the Renminbi, to decontrol prices of seven industrial consumer goods and to further decontrol prices of household items. On the whole, therefore, price reform continued to advance in 1986, amidst consolidation and improvement.

During the year, the following readjustments were in agricultural procurement pricing. Contract-assigned procurement was reduced 22 percent nationally, and this procurement was transacted at the inverse 3:7 price rate employed in 1985. Meanwhile, negotiated-price market purchases were expanded and transacted at market prices, which generally did not drop below the inverse 3:7 parity. In Inner Mongolia and the three provinces of the Northeast, contract-assigned corn was purchased at 2.7 fen per kg, and contract soybeans fetched 9 fen a kg. In most regions of Heilongjiang and Inner Mongolia, sunflower seed prices were increased 4 fen. Soybean prices were decontrolled in Henan and Anhui, which were no longer listed as major soybean producers. In North China, cotton procurement prices were changed from the inverse 3:7 to an inverse 4:6 ratio, and the product's price declined an average of 4.37 yuan per 50 kg; roundpod jute and bluish dogbane prices were allowed to float downward 10-15 percent; and lumber prices were readjusted and corrected, with the state's fixed rates for logs rising an average of 44 percent. State guidance prices were effected for wool produced in major herding regions, where float-range ceilings were established above the original procurement list prices for that product. In major pine resin, colophony and turpentine producing regions, guidance prices were substituted for the fixed prices that were previously employed for these goods; float ceilings were set at 30 percent for pine resin

and colophony and at 20 percent for turpentine; no float floors were established. Guidance prices were also adopted for such principal medicinal herbs as eucommia bark and official magnolia bark; float ceilings were established for musk, licorice root and other herbs; and major ginseng, pseudo ginseng, goldthread rhizome, angelica and other herb producing regions were instructed to coordinate their prices for these and 16 other medicinal herbs.

The following readjustments were made in producer prices for industrial goods. Among light industrial goods and textiles, Northern newsprint was increased in price by 18 percent, white printing paper prices were raised 7 percent, short polyamide fiber prices were increased 15 percent, and synthetic silk prices were hiked 38 percent. The prices of such nonferrous metals as aluminum, zinc, tin, antimony, tungsten concentrate, fluorates, industrial silicon, magnesium, aluminum oxide and copper products were increased 7.5 to 59 percent, and rose on average by about 37 percent. Among ferrous minerals, manganese ore, ferromanganese, ferrosilicon and carbon product prices were boosted 31-100 percent, 58 percent on average. Among petroleum products, prices for some natural gas were increased 60 percent, asphalt was hiked 27 percent and Fushun shale crude prices were boosted 43 percent. Among chemicals, prices were hiked 40 percent for caustic soda, 16 percent for soda ash and about 10 percent for calcium carbide. Among building materials, prices were boosted 60 percent for centrally allocated cement, 50 percent for plaster, 15 percent for asbestos tile and about 10 percent for float glass; prices for normal plate glass were allowed to float upward 20 percent. Some thermal fuel prices were hiked 20 percent, and some machinery and electronic component prices, some post and telecommunications fees and some electric power rates were also boosted.

The following changes occurred in market retail prices. Rice served to train, ship and airline passengers was supplied at negotiated prices. For table salt, a surcharge was imposed for small packaging, and the price differential between urban and rural areas was increased (price ceilings were retained for a small number of poor mountainous regions, however). State-produced woolen and knitting wool prices were allowed to float upward by about 10 percent, silk cloth 10-15 percent and rubber soled shoes 10 percent. The price of low-grade pencils was increased from 3-4 fen to 5 fen, gold jewelry prices rose 34 percent, some pharmaceuticals rose or declined in price, the cost of college course books was reduced by an average of 2 fen and primary and middle school textbooks were reduced by an average of 0.5 fen. Once the seven industrial consumer goods were decontrolled, high-grade, medium grade and low-grade bicycles carrying one of the three famous brand names (Fenghuang, Yongjiu and Feige) rose 70, 50 and 30 yuan respectively; the same three grades carrying the Jinshi or seven other local brand names climbed 50, 40 and 20 yuan, respectively; and most off-brand bicycles rose 10-20 yuan. After decontrol, name-brand refrigerators and washers

rose in price, with Wanbao, Xiangxuehai and Xileng refrigerators increasing by around 10 percent. The prices of many brands of black and white television declined 1-15 percent, all types and brands of radio-cassette recorders fell, medium and long fibers and the goods woven therefrom declined 15-25 percent and pure cotton yarn consisting of 80 or more strands rose slightly. The range of goods whose prices were allowed to increase for improved quality was also expanded during the year. All final cotton textile and knit products were so treated, with gold-medal products climbing 5 percent in price, silver-medal products 10 percent and some superior-prize ministerial, provincial, autonomous region and municipal products, 5 percent. All cotton prints, yarn-dyed fabric and knitwear were differentiated in price according to design and color, which differentials were allowed to float upward or downward by 10 percent. Floating price surcharges were also instituted for high-grade, high quality woolen textiles, and the surcharges for all such goods achieving international standards in quality and grade were allowed to float as much as 30 percent above state fixed prices.

In addition, to support agriculture, we temporarily reduced the price of chemical fertilizers produced in small plants; to encourage exports and limit imports we lowered the foreign exchange rate for the Renminbi from 3.4 yuan to the U.S. dollar to 3.7; and in response to changes in international tourist industry prices and to maintain the returns we derive from our tourist industry, we increased room tariffs in all hotels catering to foreign guests in first-class zones from 60 to 70 yuan per day during the first half of the year and from 70 to 80 yuan during the second half.

The above are the most important price measures State Council departments adopted during the year.

A number of locally administered commodity prices and noncommodity fees were also adjusted.

As a result of these changes, agricultural procurement prices rose during 1986 by approximately 6.4 percent over the previous year, industrial producer prices climbed about 4.3 percent and the cost of living index rose 6.5 percent (the urban cost of living index increased 7 percent). Market prices for nonplanned capital goods declined amidst general stability. Between January and December 1986, wire rod prices fell 11 percent, cement prices declined 13 percent (between April and December), coal prices fell 17 percent and domestically produced heavy trucks dropped 12-19 percent. On the whole, the price readjustments and decontrol measures implemented during 1986 were fairly effective in stimulating production, enlivening circulation and guiding consumption. The main problems the measures engendered were as follows. First, northern cotton prices were inappropriate, causing cotton output to fall 14.6 percent during the year. Second, after decontrol, the prices of name-brand bicycles increased substantially so that most consumers were unable to afford them and thus raised

many complaints. Third, the changes in national retail prices were concentrated in a short period of time, occurring mostly in the third quarter. Finally, we did not conduct enough propaganda work to explain these changes to the people, and thus the changes evoked considerable complaint from the masses at the time.

## II. Preliminary Objectives Been Established for Reform of Price Control Administration, and Price Inspection Work Has Advanced.

China's price control administration registered improvement in the following areas during 1986. First, price control authority was decentralized for more goods, and the prices of more commodities were decontrolled. Between 1983 and 1986, the number of agricultural products whose procurement prices were either fixed or guided declined by approximately 80 percent, the number of industrial goods whose producer prices were either fixed or guided fell 30 percent and the number of agricultural products, light industrial goods and textiles whose sales prices were either fixed or guided dropped about 40 percent. By 1986, agricultural produce procured at fixed prices accounted for less than 40 percent of the total volume of produce procured nationally, and retail sales of fixed-price consumer goods accounted for less than 50 percent of the total national volume of consumer retail sales. For in addition to decontrolling the prices of bicycles and six other industrial consumer goods, we also decontrolled more household items, including towels and socks among these goods as well. Second, after several years of experimentation, we were able to define the objectives for future price control administration and the form that administration should take. In his "Report on the Seventh 5-Year Plan," Premier Zhao Ziyang stated, "Through reform, we have gradually erected a system in which prices for a very small number of important commodities and labor services are fixed by the state and in which most other goods and services are subject to state guidance prices or to market prices, which system has given fuller play to the regulative role of price levers." The framework of this new administrative system was gradually created at the national level in 1986, and by the end of the year, fixed, guidance and market prices coexisted in China, the range of goods subject to fixed prices was reduced, more products were converted to guidance and market prices, and the entire price control administration was advancing toward the objectives set forth in the Seventh 5-Year Plan.

Price supervision and inspection work registered further advances during the year. In January, the State Price Bureau transmitted a circular issued by the Liaoning Industrial and Commercial Administrative Bureau and Price Bureau, which called for stronger price controls over transactions conducted in local markets and over private retailers and ordered each locality to draw up concrete, practical measures, based on local conditions, to strengthen price control over market trade and private retailers. In March, the State Price Bureau issued the

"Circular on Price Supervision and Investigation Work in 1986," which stated that such work should emphasize stabilizing the rise in retail consumer and nonplanned capital good prices. In June, the State Tobacco Monopoly, the State Industrial and Commercial Administrative Bureau and the State Price Bureau jointly issued the "Circular on Strengthening Control of the Cigarette Market." In August, the State Price Bureau and other relevant agencies approved Chengdu's effort to institute a system of unified price labeling and decided to extend that system to the rest of the nation. In the same month, the State Industrial and Commercial Administrative Bureau and the State Price Bureau issued the "Joint Circular on Strengthening Cooperation in the Investigation of Economic Crimes." In September, the State Planning Commission, the State Economic Commission, the Ministry of Commerce, the State Price Bureau and the State Industrial and Commercial Administrative Bureau jointly issued "Provisions for the Prohibition of High Pressure Sales." In October, the State Council issued the "Circular on Maintaining Basic Price Stability in the Market," which ordered adherence to the arrangements made by the council for the initiation of major financial, tax and price inspections; strengthening of price supervision, inspection and control; and, where necessary, guidance over decontrolled prices and fees. With the vigorous support and involvement of relevant agencies and social groups, price departments at all levels initiated wide-ranging inspection work, investigating more than 350,000 violations of price discipline, uncovering 400-plus million yuan in illegal receipts, recovering 360 million yuan in taxes in 1986 alone and returning 40 million yuan to defrauded consumers. Experience proves that price control and supervision go hand in hand with price decontrol and invigoration, that neither can do without the other and that the more we decontrol and invigorate prices, the more we need to strengthen control and supervision thereof.

Another major development in price inspection work during 1986 was the strengthening of popular price supervision. In February, the State Price Bureau and the National Federation of Trade Unions jointly convened the National Price Supervision Work Conference and issued the "Circular on Strengthening Worker Price Supervision and Inspection" after the conference concluded. Soon thereafter, the offices of the CPC Central Committee and the State Council transmitted the "Report on Strengthening Price Supervision" prepared by the federation and the bureau. By the end of 1986 and early 1987, 8,658 worker price supervision stations and groups had been established in 1,130 cities and counties throughout 28 provinces, autonomous regions and municipalities across the nation, and 64,000 people had been formally appointed worker price inspectors; these inspectors associated with millions of consumers who provided them information on prices. Since then, a total of 20 million price inspections have been conducted throughout the nation, and 500,000-plus large and small cases of unreasonable or disguised price markups have

been investigated, which efforts have played an important role in maintaining market price stability. In addition to these organizations, a corps of inspectors has also been organized by urban neighborhood committees, which corps has played an important role, too. In the future, we must place greater emphasis on popular supervision and more effectively link state, community and enterprise supervision. III. The Rise in Retail Prices Was Kept within State Plan Targets

During 1986, the state continued to exercise target controls over the rate of increase in retail prices. Consequently, the national retail price index rose six percent during the year, which rate was about one-third that of

the previous year (8.8 percent), thus attaining the targets set forth in early 1986. This achievement resulted from joint efforts, coordination and cooperation under the leadership of all regions, departments and levels of government.

Changes in retail prices during 1986 (as compared with the same periods in the previous year) exhibited the following characteristics.

1. In terms of time, prices were more stable during the first half of the year and rose more rapidly in the second. As shown below, when charted for the entire the year, monthly price increase rates resembled a "V."

Monthly Price Increases during 1986

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Rate of Price Increase (%)	8.5	7.5	6.4	4.4	3.3	2.8	3.2	3.7	5.0	4.6	5.8	6.2

The monthly price increase rate declined from January to June but rose from July to December. The reasons for this trend are as follows. The decontrol of pork and other major nonstaple foods carried out by all provinces, autonomous regions and municipalities during 1985 occurred during the first half of that year, primarily after April, and was completed by 1 July. These moves affected prices during the first half of 1986, but the impact gradually tailed off during that period. Price-change inducing events that occurred during 1986, on the other hand, were largely concentrated during the third quarter of the year, when the State Council, other relevant agencies and various localities decontrolled and readjusted the prices of a number of commodities, which moves accounted for an increasingly greater proportion of the growing rise in prices throughout the remainder of the year.

2. By category, the rise in the price index stemmed primarily from the increase in consumer, primarily food, prices. During the year, the price index for agricultural means of production rose by only 1.1 percent, whereas the consumer price index climbed by 6.5 percent. The primary factor affecting the latter was food prices, which rose by 7.4 percent. Here, it is important to note that the rise in grain prices outstripped that of nonstaple foods 9.3 to 8.4 percent. The reason for this gap is that more grain was sold at negotiated prices and that market prices rose comparatively rapidly—at a rate of 32.6 percent between December 1986 and the same period the previous year. Among nonstaple foods, the average annual price of fresh vegetables remained most stable, climbing by only 3.2 percent, whereas meat, poultry, egg and aquatic good prices, which were affected by the previous year's price decontrol measures, rose more rapidly, at rates of 10.1 and 11.7 percent, respectively. Analysis suggests that more than half of the 1986 price rise was related (directly or indirectly) to the increase in grain

prices. Another development that cannot be ignored is that, during the second half of the year, daily necessity and apparel prices rose at increasingly higher rates and by December 1986 stood 5.9 and 11.2 percent, respectively, higher than at the same period the previous year. Thus apparel prices diverged from the pattern they had followed since 1979, in which they remained relatively stable, slightly declining from time to time. And the large rise in prices for daily necessities, concentrated as it was among certain products, was unprecedented during the Sixth 5-Year Plan.

3. There was a marked reduction in the gap in regional price increase rates. Throughout the year, 18 provinces and autonomous regions experienced rates that were lower than the national average (excluding Tibet). Of these regions, Sichuan's rate, 3.9 percent, was the lowest, followed by Hubei (4.1 percent), Shandong (4.2 percent) and Guangdong and Hunan (both 4.8 percent). Three provinces had the same rate as the national average. And seven provinces, autonomous regions and municipalities experienced higher rates, of which Tianjin's, 7.2 percent, was the highest, followed by Beijing, Shanghai and Xinjiang (all at 6.7 percent). The gap between the highest and lowest regional rates thus was three percent, which represented an 11 percentage-point decline from the 14-point gap between 1985's highest (Hebei's 18.6 percent) and lowest (Henan's 4.9 percent) regional rates. The urban-rural gap was also reduced in 1986. In 1985, urban prices increased at a rate of 12.2 percent, whereas rural prices rose 7 percent, a differential of 5.2 percent. In 1986, on the other hand, urban prices rose seven percent, while rural prices increased five percent, a gap of only two percent.

4. Structurally speaking, planned readjustment and decontrol were not the major contributors to the overall rise in prices, which was due instead to changes in other

prices. From the analysis conducted by a number of provinces and municipalities, we estimate that readjustment and decontrol caused prices to rise about 1.3 percent, thus accounting for about 22 percent of the total increase in the general price index. Of this 1.3 percent rise, 0.3 percent resulted from the readjustment and decontrol effected by the State Council and its departments, and the other 1 percent derived from the same measures carried out by provinces, autonomous regions and municipalities. Nonplan factors, on the other hand, caused the index to rise about 2.3 percent, thus accounting for approximately 38 percent of the increase in the index. Among these factors, market prices rose 7.7 percent over the previous year, which experienced a 16.9 percent increase in these prices. Moreover, market trade accounted for a greater share of total retail sales volume in 1986. Thus changes in market prices are estimated to have caused the general price index to rise by about one percent. The number of commodities subject to negotiated prices increased, the price levels of these commodities rose and the prices of decontrolled industrial and household commodities increased on their own, so it is estimated that these factors caused the general price index to rise by 1.3 percent. The most important factor behind the rise in the general index in 1986, however, was the effect of pork and other fresh nonstaple food prices, which were decontrolled, and of rural sales prices for grain and cooking oil, which were readjusted, the previous year. The resulting rise in these prices caused the national retail sales price index to rise 2.4 percent, thus accounting for about 40 percent of the total increase in the index.

Although retail prices rose substantially in 1986, the living standards of most rural and urban people continued to improve due to advances in production. During the year, per capita rural income reached 424 yuan, a rise of 6.7 percent over the previous year, or an actual rise of 3.2 percent, when adjusted for inflation. Per capita wages reached 1,332 yuan, an increase of 16 percent, or an actual rise of 8.4 percent, when adjusted for inflation. Yet many wage earners still were quite disgruntled. The reason for their disgruntlement was that they did not understand that their wage increases included a cost of living allowance, which was designed to compensate for inflation; instead, wage earners perceived the matter the other way around—they believed that all of their wage increases were in fact raises and saw these raises as being eaten up by inflation. It should also be noted that, for some wage-earning families, actual per capita income did not increase very much during the period and may even have declined for a small number of families. These people were much less able to cope with price increases. Thus an important issue we must resolve is how, whenever the inflation rate climbs, we can provide explicit cost of living allowances and how we can distinguish these allowances from wage reforms and raises.

**Investment Counselors Discuss Investment Reform**  
*40060025 Beijing JINRONG SHIBAO in Chinese*  
*12 Oct 87 p 2*

[Article by Zhang Zhenghua [1728 2973 5478] and Chen Zimu [7115 1311 3668]: "Consultation: A Key Step in Investment Reform—A Visit With China Investment Consultancy Company's General Manager Cao Erjie [2580 1422 7132] and Assistant Manager Hui Xiaobing [1920 1420 0365]" ]

[Text] What is the crucial reason for the uncontrollable scale of investment that has persisted in China for many years? How can we make the overall course of investment policy in China more rational and scientific? What status should investment consultancy services have in the investment policy process? What role should they play? With these questions in mind, we paid a call on China Investment Consultancy Company's General Manager Cao Erjie and Assistant Manager Hui Xiaobing.

**This Company Was Founded on the Need for Reform**

Cao Erjie feels that the long lack of firm control over the investment scale is primarily due to problems in our investment system. For many years the investment field has operated on a system of departmental responsibility for investment. Responsibility has been divorced from authority: those who made decisions did not accept the risks, and those who spent the money did not shoulder the responsibilities. This has been one root of the struggle over investment between local areas, departments, and enterprises. After the switch from appropriation to credit, banks and enterprises were given enhanced responsibility to recall and repay loans, but they were unable to avoid certain faults in investment policy brought about by the old investment system. In the wake of intensified economic restructuring, bank credit could no longer be promised by government and planning departments. Rather, under the guidance of the state plan, impartial scientific consultancy services considered macroeconomic perspectives and microeconomic enterprise perspectives in crafting comprehensive technical and economic arguments on the choice of projects. These were supplied to the banks, who then made the decisions. Impartiality should be the principle behind consultation services. Consultancy companies should have no departmental mentality at all. They should consider what level of national strength and current production development will make the optimum disposition of national resources and the most rational distribution of production, and they should also consider the enterprise's technical and economic benefits and national economic returns. Proceeding on that basis, they should examine the rationality of the plan's formulation and execution. It is against precisely this backdrop that the China Investment Consultancy Company arose to meet the times.

### The Effect on Major Investment Decisions

The China Investment Counseling Corporation was established in March 1986. According to Hui Xiaobing's introduction, as the total investment on company-appraised projects reached 8 billion yuan, and as the number of projects appraised reached 76, the Construction Bank of China made the company's project appraisal reports a major reference tool in their credit decisions. During the Seventh 5-Year Plan the state originally planned to invest 2 billion yuan to remodel China's small chemical industry and transform 100 small ammonium hydrogencarbonate plants and ordinary superphosphate plants into small urea and ammonium phosphate plants. One half of the investment would come from credit provided by the Construction Bank of China. The China Investment Consultancy Company spent nearly half a year investigating and appraising the small chemical industry remodeling plan. It twice sent reports to the government departments concerned, stating reasons why the remodeling plan should be re-examined. Leading comrades at the State Council gave this matter serious consideration and approved the company's suggestions completely.

### The Objective and Pattern for Investment Reform

The degree to which an investment decision is scientific is determined by the degree of perfection in the investment system. The two managers we consulted believe that the pattern for investment reform should be to achieve "three authorities established separately." That is, under the guidance of the state plan, we should combine investment decision-making with acceptance of investment risks and shouldering of investment responsibilities. The state's plan should display a good grasp of macroeconomic factors. For example, the state plan should firmly control the scale, direction, and rational distribution of investment, but major and minor projects cannot all be arranged by the state. As for large-scale and extra-large-scale state projects, the planning department and other departments concerned should have the authority to make suggestions. Finance organizations and investment counseling firms should have the authority to examine and appraise investment and credit projects and accurately report the results of appraisals on every major project to the state. Finally, the state should make a decision on the major investment project. As for projects suggested by the planning departments concerned, we should make our decisions after weighing advantages and disadvantages based on the conclusions reached by banks and investment consultancy companies. For most projects, the state need only stipulate the scale and direction of investment and allow enterprises and banks to make the direct decisions on investment and credit.

Right now the state's has weak methods of regulating and controlling investment, and indirect regulation and control methods are even weaker. It is difficult to guarantee that planned investments will be scientific and impartial.

This is not something that can be achieved in a short time. General Manager Cao Erjie hopes that more investment consultancy companies like his own—companies not bound by any departmental ties—will be established as a backdrop for banks. He hopes that these will become a crucial link in investment reform.

### A Look at the Job that Lies Ahead

When discussing the job that lies ahead, the two managers we consulted seemed very confident. They indicated that their company is engaged in the cause of reform and must not waver in this effort. In the next phase, the firm's job will become progressively more standardized, employing some evaluation methods used by banks. Their goal is to emulate certain world-renowned firms, such as the Lande [5695 1795] firm in the United States and Nomura Securities Research Institute in Japan, and train a group of highly-skilled, interdisciplinary individuals who understand both economics and technology.

Cao Erjie pointed out in closing that investment reform is imperative. Investment consultation is an undertaking that must be developed and strengthened. The effect our work will have on state investment policy will be determined by the intensity of investment reform.

12510

### Investment System Reform Urged

40060024 Beijing ZHONGGUO JINGJI TIZHI GAIGE  
[CHINA'S ECONOMIC SYSTEM REFORM] in  
Chinese No 10, 23 Oct 87 pp 32-34

[Article by Jia Kang [6328 1660]: "Promote Comprehensive Reform of the Investment System"]

[Text] Following the 3d Plenum of the 11th CPC Central Committee, reform of the economic system had a profound impact on the old, rigid concepts of investment and on the investment system itself. Theoretically, we began to understand clearly that China was in an early stage of socialism and needed to vigorously develop a planned commodity economy, and that enterprises needed to become autonomously operating commodity producers and dealers competing fairly and taking responsibility for their own profits and losses. Changing and improving the state's methods of controlling investment, introducing market mechanisms into investment, and decontrolling investment were therefore necessary to enable the socialist economy to undergo vigorous development. In practice, we actively experimented with compensated use of state investments ("replacing allocations with loans"); by reducing taxes and allowing enterprises to keep their profits, by shifting authority for approval of investment projects to lower administrative levels, and by reinforcing the role of credit in the realm of investment, we also allowed independent investment by enterprises to become ever more dynamic. These theoretical and practical advances are now promoting further changes in the field of investment.

However, in terms of our present situation, there are still serious problems in investment: the excessive overall scale and inappropriate structure of investment. Specifically, this is manifested in the following: 1) Investment in social fixed assets is increasing too rapidly; investments made with nonbudget funds and locally raised finances are clearly out of control, and this creates an imbalance in total supply and demand. 2) At the same time as overall investment is expanding, many individual investments are tending to become smaller, often failing to meet the desirable economies of scale; there have also been many duplicate investments made in a headlong rush forward, leading to poor return on investment. 3) An excessive proportion of total investment is going to nonproductive construction; if this continues, it will affect the country's stamina for economic development. 4) Productive investment is concentrated too much on processing industries, while projects for raw materials, energy, communications and transport, which require large investments and yield low returns, are becoming rare in the economy, and this creates sharp structural conflicts, forcing the state to make use of as many "key construction" projects as possible to pursue the steadily increasing need for basic raw materials, energy, and transport created by the uncontrollably burgeoning number of ordinary projects. This further expands the already excessive scale of investment.

There are many causes producing these problems; the principal ones are: 1) Following the reduction in the old, direct means of control, the new, indirect macrocontrol measures are still incomplete and cannot be fully deployed. 2) Prices are still skewed and the market system is not fully developed; it has not been possible to create a market environment in which enterprises compete equally on the basis of product quality and that would be capable of restricting the direction and scale of investment. 3) Since enterprise autonomy was expanded, internal operating mechanisms have not been fully developed, so that it is impossible to establish effective investment self-control mechanisms. 4) Following the expansion of the financial authority of local governments, financial income at this level continues to follow the administrative relationships of enterprises, so that local governments tend to run as many as possible of their "own enterprises" producing high-tax, high-profit products while ignoring requirements in such areas as industrial structure, economies of scale, and the need to create new, improved products. 5) The legal and policy-making systems for investment are incomplete, without clearly assigned responsibilities; so-called "leading cadre projects" and "projects for personal glory" continue to be undertaken. In short, these problems are produced during the transition from the old system to the new by the combined effects of the defects of the old system and the immaturity of the new. To solve these problems, we must proceed with reform of the investment system and lose no time in carrying out complementary reforms in areas related to investment. This is the basic way to

establish a characteristically Chinese socialist investment system, overcome "investment fever," and solve quantitative and structural problems.

The basic conditions for promoting reform of the investment system are now in place. In addition to the reforms now being carried out in such areas as planning, finance, banking, supply, and prices, reform of the political system has now been placed on the agenda and will gradually be carried out; this will forcefully accelerate the progress of economic reform.

Under such circumstances, we should first reduce the phenomenon of intermediate-level officials grabbing back power by means of a series of complementary reform measures, and turn over more investment authority to enterprises.

Early reform of the economic system clearly showed this tendency toward the expansion of enterprise autonomy. Although obvious progress has been made in expanding autonomy, to date there is still a great deal of "interception by intermediaries," i.e., authority in certain financial and practical matters which state policy has decreed should be turned over to enterprises has instead been intercepted by responsible departments at all levels. This is primarily because there has been no fundamental change in the framework of this traditional, compartmentalized system in which enterprises are controlled according to subordinate relationships. These various compartmentalized administrative organs are still able to interfere too much with (directing by various means their investment and production operations) and keep too close an eye on (taking responsibility by various means for investment and operating risks and losses) their "own enterprises" which they are supposed to manage. The responsible departments (some of which are now called "companies") have retained all their original administrative authority and behaviors as administrative organs, centralizing some of the enterprises' depreciation, overhaul funds, and after-taxes profits, directly administering investment projects, issuing their own directives, and taking from those enterprises that have and giving to those that do not. It has therefore been difficult to get enterprises to operate autonomously, and to do away with the old and new forms of the "big rice pot." In order to implement the principle of separation of government and enterprise, substantially readjust and transform government functions, and achieve the goal of truly invigorating enterprises, we must grab hold of this critical aspect which is investment and continue to decentralize investment autonomy. We must work gradually to ensure that, except for key large-scale, interregional projects with long turnaround times carried out by the state, ordinary profitable investment projects are all decided on independently by enterprises and enterprise groups using their own funds, bank credits, and capital formation.

Decentralizing investment autonomy covers a broad area: if concrete results are to be achieved, complementary efforts must be made in many fields. Among these, several key points need to be stressed:

1. Carry out reforms of economic management institutions. The responsible departments of the central and local governments which originally managed specific enterprises according to administrative relationships should institute a series of clear and simple measures to merge and reorganize their functions. With the exception of certain departments of a particular economic nature (such as railroads, posts and telecommunications, etc.), ordinary industrial departments in the central government should be streamlined and reorganized into industrial associations. The members of these industrial associations, in addition to some officials, would be primarily the representatives of various enterprise groups and key enterprises; their function would be to carry out national industrial policy by means of economic coordination. Some of the original, local responsible offices and administrative companies could be eliminated, some would be incorporated into the regional administrative association, and some would be turned into economic companies. All or most of the specially earmarked funds of the original responsible departments should be turned over to the enterprises.

2. Establish a complete system for managing state-owned assets. In order to fully implement the principle of separation of government and enterprise, reform of economic management institutions must be accompanied by a separation of ordinary governmental management functions and the function of managing state-owned assets, so as to clarify property relationships, separately channel taxes and profits, and establish a management institution and complete system for state-owned assets. First, the state should levy taxes in keeping with its political authority and regulate the economy by taxation and other levers, performing ordinary economic management functions; second, the state should also receive dividend income as representative of the owners of the people's property, and represent those owners through the management of the state-owned assets management institution. The responsibility of the state-owned assets management institution would be to ensure the integrity of state assets, receive its due property-rights income, and promote the continuing propagation of state assets. It would manage not by becoming involved in day-to-day enterprise operations but rather by assigning personnel in a directing or oversight capacity to participate in strategic decision-making regarding enterprise development, with operational authority being given to the enterprise's managers and directors; a responsibility system with clearly stipulated rewards and punishments would be put in place for the managers, and the necessary inspection and oversight in finance and other areas would be provided. This system of state-owned assets management institutions should not be made into a thorough, top-to-bottom administrative network; rather, various types of holding companies acting as economic entities and developing competition should be set up for ordinary industries under the state-owned assets management offices.

3. Thoroughly implement "tax separation" reform. Accompanying the two reforms described above, the

financial management system's distribution of all types of financial revenue according to the administrative relationships of enterprises must be changed: revenues for the central and local governments must be separated according to type of tax; at the same time, the authority of each level of government must be clarified and its range of financial expenditure rechecked, so as to form independent and balanced budgets at the central and local levels. In terms of development goals, in principle local governments should no longer take on direct investment assignments for for-profit projects, and the investment focus must be on the construction of not-for-profit regional infrastructure projects. Some large-scale infrastructure projects and key construction projects should be carried out primarily by the central government. This approach would help to clarify governmental functions, reduce compartmentalization, and provide an excellent external environment and conditions of fair competition so enterprises could take on ordinary for-profit investments. It would also stabilize distribution between the central and local governments, put the brakes on impetuous investment by local governments, and achieve good hierarchical macrocontrol.

4. Improve enterprise management mechanisms. After investment authority has been decentralized and enterprises become the principal investors, the key to normalizing investment behavior lies in solidifying budgetary restraints on enterprises, allowing them to bear the actual risks of investment and learn from market competition. Therefore, the enterprise bankruptcy law must be positively established, improved, and practically implemented. The current approach of repaying special loans before income taxes is still a form of the enterprise eating out of the state's big rice pot; specialized banks issuing loans have their return assured, regardless of an enterprise's results. Thus, neither the enterprise nor the bank bear the risk of investment, which ultimately has to be borne by the state. This directly contradicts the basic principle of developing a commodity economy and closely integrating enterprise authority, responsibility, and profit. Positive measures are urgently needed to change this system to repayment of loans after taxes, in order to smooth out the distribution relationships. Specifically, consideration may be given to applying the "old method for old loans (repayment, or partial repayment, before taxes) and the new method for new loans (full repayment after taxes)" as a transitional measure, while at the same time adjusting income-tax rates downward by an appropriate amount. A tight, multilevel economic responsibility system should be set up within enterprises, which would mobilize the enthusiasm of staff and workers by means of a reinforced distribution system that would reward the industrious and penalize the lazy.

5. Complete the market system. Decentralizing investment authority in fact means subjecting enterprise investments to market regulations controlled by the state; the market system must therefore be made complete. This includes: continuing to push price reform, rectifying distortions in the price system, and gradually

decontrolling the prices of some consumer goods and means of production; establishing and developing a means-of-production market, a technology market, a labor market, and an equipment market, so that all types of production factors and assets on hand can be circulated and reorganized; improving the money market and developing varied types of lending, with specialized banks operating as enterprises; financial departments and the central bank serving as two macroeconomic management departments to improve coordination of financial and monetary policies and the flexible and complementary use of taxation, bonds, interest rates, discount rates and other economic levers, implementing state industrial and technological policies by means of parameter regulation, etc.

Reform of the investment system also requires instituting funds management over investments in productive construction carried out using the state's centralized finances.

China is a developing country with a vast territory and a weak foundation, sharp differences from region to region, and an undeveloped commodity economy. These facts affect the key construction projects that go to make up the overall framework of the national economy; key large-scale, interregional projects with long turnaround times must be undertaken by the state (which does not preclude the participation of social funds and enterprise funds attracted by various means). Economic construction carried out by the state's input of centralized financial resources played a determining role in the past in the creation of its own independent industrial system; however, mistakes and the phenomenon of key construction projects turning into wastefulness were common occurrences. In order to reduce mistakes and improve returns on the use of funds, it is essential to reform the management of the state's investment funds. The key points in such reform are as follows:

1. Establish a national investment fund. The change from allocations to loans instituted in 1981 is a positive attempt to apply state credit to investment; preliminary successes have been achieved, and this experience needs to be assimilated so that the system can be improved and developed. It is now necessary to establish a national investment fund and a national long-term investment bank in charge of utilizing this fund. Assuming that projects are placed in their proper categories, those productive construction projects undertaken by the state which have the capacity for recovering funds will all be included within the investment range covered by the investment fund; a source of funds will be provided by policy decisions in which the national long-term investment bank participates, and by loans; capital and interest would be recovered on time, and the funds would be put back to work. This national long-term investment bank must not be operated as a purely administrative monopoly institution, but rather as an institution that manages the various competitive investment companies under it primarily according to economic methods. It

would be responsible for selecting projects in accordance with national construction plans, doing feasibility studies, seeing to competitive bidding and contracting, overseeing progress, testing and acceptance, etc. In its early stages, the investment funds would come primarily from the state's financial departments; this would later be shifted to turnover and self-generating funds, and various means could be used to attract funds other than the state's centralized financial resources. The new management approach to national productive-construction investments would forcefully encourage management institutions and construction units to seriously consider investment options, pay attention to their results, shorten the construction cycle, and adapt to such external factors as the diversification of investors and the expansion of credit relationships, in order to mobilize and attract nonbudgetary funds, credit funds, and social funds by means of state investment, creating a positive overlapping effect.

2. The financial departments' single-item budgets should be changed to multiple budgets. The current approach of entering the revenue and expenditure from regular financial projects and from productive-construction investment projects (capital projects) into a single, overall budget is ill-suited to the need to reform productive-construction investments through state credit, since it hinders analysis and understanding of the two different types of revenue and expenditure mentioned above; it hinders correct accounting of returns on investment funds, and it hinders the understanding, examination, and supervision of revenue and expenditure by legislative bodies and the people. As an accompaniment to the creation of a national investment fund as described above, it is necessary to change the financial departments' single-item budget into a multiple budget that lists separately the revenue and expenditure for regular projects and for productive-construction projects, thereby increasing the openness of national budgets, improving the results of using investment funds and other types of funds, and strengthening internal and external restraints on the budget. Incoming and outgoing investment funds used by the national long-term investment bank would be fully reflected in the budget for productive-construction investment projects. National debt income (foreign loans acquired or paid off by the central government, treasury bonds, key construction bonds, etc.) would be earmarked for productive construction and would all go into the investment fund; repayment of capital and interest would come out of the recovered investment funds.

3. Complete the investment policy-making and consulting system and strengthen the investment responsibility system. Improving the quality of policy-making is one very basic aspect of improving the results of state investments. In order to complete and perfect the investment policy-making system as much as possible, we must first vigorously strengthen coordination among such departments as planning, finance, the central bank, statistics, etc. Once we have an overall grasp of the national

economic situation and the scale and structure of investment, modern methods would be used to formulate a medium- and long-term flexible investment plan, setting forth the presumed goals of construction projects. Structurally, these plans should implement the state's development strategy and industrial and technological policies. In terms of construction scale, they would not go beyond the objective limits allowed by the nation's capabilities. Second, an effective consulting network needs to be established to gather timely information in each specialized field; the national long-term investment bank would bring together multidisciplinary experts to select projects to provide individual and comprehensive justifications of the feasibility of construction projects. Third, a strict responsibility system would also have to be established in the area of investment policy-making. The national long-term investment bank would have overall responsibility for the use of funds, and a clear system of hierarchical responsibility would be created. The cause of problems arising in investment projects would be surveyed and examined, and those resulting from mistaken policy-making would be dealt with according to rules and regulations; on the other hand, outstanding performance would be rewarded.

13322

**Bo Yibo on Increasing Investment**  
40060019 *Taiyuan NONGYE JINGJI*  
[AGRO-ECONOMIC RESULTS] in Chinese  
25 Aug 87 p 1

[Article by Bo Yibo: "We Need To Work Harder to Improve Investment Results"; this article serves as the preface to the "Study of the Economic Results of Investment in Capital Construction"]

[Text] When the "Capital Construction Report" began publication in 1985, I wrote that we "should increase efforts to raise investment results" in the hope that economic theorists and practitioners would pay close attention to the issue of investment results, to effectively improve China's investment results and make positive contributions to planning and policy-making. Now, the "Study of the Economic Results of Investment in Capital Construction," a key national economic research project of the Sixth 5-Year Plan, is about to be published. Reading an outline of this book, I had the impression that research on this topic has made significant progress.

As everyone knows, capital construction is an extremely important aspect of national economic development. Since New China was established, China's economic development, whether it proceeded smoothly or suffered complications, has been closely linked with the situation in capital construction, and this has not been coincidental. It should be noted that over the past 30-odd years China's capital construction has had tremendous successes that have had an important effect on national economic development. At the same time, we hardly need be reticent in saying that for a long period of time

prior to the 3d Plenum of the 11th CPC Central Committee there were many serious problems in our capital construction work which obstructed economic progress and even had disastrous effects. The four major problems can be summarized as follows: 1) Repeated expansions in the scale of construction, long making it impossible to maintain an approximate balance in total supply and demand; 2) Irrational investment structure, very poorly coordinated proportional relationships among the various sectors of the economy, and a very inappropriate supply and demand structure; 3) Inappropriate distribution of productive forces, and many mistakes in the rhythm of economic development and in selecting construction projects in different regions; 4) Poor return on investments: comparing input to output, a very high price paid was paid to achieve relatively modest results, causing severe waste and losses. The recurrence of these problems, and the inability to resolve them fundamentally, are directly related to the many defects persisting in the economic system and the capital construction management system.

Since the 3d Plenum of the 11th CPC Central Committee, the Central Committee and the State Council have strived to improve capital construction work; they have managed to appropriately control its scale and readjust its structure and distribution, and to make policy-making regarding capital construction projects more scientific. They have been particularly successful in recent years in reforming the management system. The purpose of all this work is to improve the overall results of investment and create the very important conditions for continued healthy development of the national economy and for completion of the four modernizations. Obviously, improving investment results is not an ordinary matter but rather an all-encompassing strategic issue. The successes achieved in this area in the last few years must be fully affirmed, but we must not overestimate them. The facts tell us that the problems of scale, structure, and distribution that persisted so long in the past have not been resolved, and some of them are still far from being resolved; moreover, new problems have arisen in this transitional stage between the old and the new systems. Truly solving these problems will require a great deal of work on our part, and a steady output of arduous effort over a long period of time. Only by fundamentally resolving these problems and improving investment results will we be able to achieve a breakthrough in progress. In a certain sense, improving overall economic results, including investment results, is the key to moving forward with our current economic system reforms and achieving the great strategic goal of national economic development. This is first and foremost a matter of macrocontrol. Comrades involved in theoretical economic research as well as those engaged in actual work in all economic sectors, including comrades in design, construction, and research units, are all shouldering a great responsibility and a glorious mission, and they will all be able to prove themselves. I fervently hope that we will see more and better research results and work results in order to solve real problems in the area of China's

capital construction, improve investment and economic results, and advance the great cause of the four modernizations, so as to continue to contribute to the building of a socialism with Chinese characteristics.

13322

**Survey of Enterprises in First Two Quarters**  
*40060036 Beijing JINGJI RIBAO in Chinese*  
*3 Oct 87 p 3*

[Article by Peng Zhaoping [1756 3564 1627], Li Lei [2621 4320], Zhang Youheng [1728 2589 1854] of the Enterprise Tracking and Observation System Topic Group of the System Reform Institute: "Some Features of Current Microeconomic Activity"]

[Text] This article is based on questionnaires returned by the plant directors and managers of 2,000 enterprises and on the quarterly reports of 800 enterprises for the first and second quarters of 1987; it seeks to describe some of the major features of microeconomic activity in the first half of this year to provide background for making adjustments in macroeconomic policy.

### I. Increasingly Stable Enterprise Behavior

As economic system reform progresses, enterprises are serving as economic cells, progressively turning into an independent force in economic activity. Under the existing economic system and political climate, the expectations of enterprise leaders are no longer immaterial factors in economic activity, and the goals of enterprises and their corresponding behaviors are already playing an important role in microeconomic activity as well as in the macroeconomic situation.

The questionnaire we designed asked plant directors and managers to answer each question in terms of their "evaluation of the current situation," their "expectations for the future," and "in comparison with the same period last year." The results show that the prior expectations of enterprises closely match the current actual situation. The correlation factor for responses to all the questions from all the enterprises was over 0.99.

The high degree of unity between the enterprises' prior expectations and their evaluation of the current situation not only is illustrative of the situation in future short-term microeconomic activity but also demonstrates that enterprise behavior is beginning to stabilize. If there are no major shifts in macroeconomic policy for some time to come, the basic situation in microeconomic activity will not change significantly. Furthermore, when the economic situation is good, maintaining a stable economic policy is an important condition for ensuring stable economic growth.

### II. Improvements in Resource Utilization

Enterprises are satisfied with their utilization of production capacity. Among the enterprises in the sample, 54 percent of basic raw-materials industrial enterprises were satisfied with their utilization of production capacity (equipment), while 30 percent thought it was mediocre; 50 percent of industrial enterprises involved in energy (electricity) found it satisfactory, while 32 percent thought it was mediocre; in the manufacturing industry, 48 percent found it satisfactory, and 34 percent mediocre; in the consumer-goods industry, 49 percent rated it satisfactory, and 33 percent thought it mediocre. Conversely, in these same four industries, the percentages of enterprises finding their utilization of production capacity inadequate or poor were 16, 18, 18, and 18, respectively. At the same time, expectations for the next three to six months were good in these industries, with only 10, 12, 7, and 7 percent of the enterprises, respectively, expecting the utilization of production capacity to decline. Since the evaluations of enterprises basically match their expectations, as described above, and if there are no major changes in the market, microeconomically speaking people will find the utilization of resources satisfactory. The enterprises' exemplary utilization of industrial capacity in the first half of this year illustrates this fact.

Improving demand and implementation of the contract operations responsibility system early this year caused a noticeable improvement in the enthusiasm of enterprise workers for production over the same period last year, and this is expected to improve even further in the second half of the year; 59 percent of all enterprises believe that worker enthusiasm is now quite high, while 34 percent believe it is mediocre and 7 percent believe it is poor. In comparison with last year at the same time, 47 percent believe enthusiasm is higher, 48 percent believe it is the same, and 5 percent believe it has declined, while 41 percent believe it will improve in the next three to six months, 56 percent believe it will remain the same, and 3 percent believe it will decline. The leadership in those enterprises linking wages to taxes and profits are the most satisfied with worker enthusiasm, with 75 percent believing that worker enthusiasm is now high and 58 percent believing it has improved over the same period last year; 50 percent believe it will improve further in the next three to six months, and this is clearly higher than the average level in all enterprises. One source of concern, however, is that mistakes in management or a worsening external climate may have an adverse impact on worker enthusiasm.

### III. Improved Enterprise Sales

Enterprises everywhere are reporting that their stocks of finished goods have declined. Analysis of the questionnaire shows that in the first half of this year enterprises averaged 16.5 days of goods in stock (sales income/production-cost funds). The decline in stocks is most apparent in the final-products sector. The average number of days of stock declined most rapidly in the tailoring,

leathers, and furs industry, the machinery and equipment manufacturing industry, and the electrical, electronics, and instruments manufacturing industry.

There was significant improvement in orders for goods over last year. Orders undelivered at the end of the period by the surveyed enterprises increased 8.3 percent over the same period last year. Among the surveyed enterprises, roughly equal numbers believed that orders were good and that orders were inadequate. In terms of expectations for the next three to six months, however, demand in the second half is expected to improve over the first half of the year.

The enterprises' favorable attitude towards sales has further expanded demand for raw materials. The questionnaire reveals that enterprises everywhere believe their stocks of raw materials are insufficient, and that this situation is unlikely to improve significantly in the second half of the year.

#### IV. Short-Term Economic Growth Still Limited by Supply

Analysis of the first and second quarters of this year shows that short-term economic growth for enterprises is now being restricted by supply. The seven leading limiting factors for the surveyed enterprises are, in order: 1) raw materials; 2) circulating funds; 3) equipment; 4) electricity supply; 5) market demand; 6) energy supply; 7) manpower shortage. Dividing the enterprises into 13 industries, for 11 industries electricity supply was among the four leading factors in the first quarter of this year; in the second quarter, the number of industries putting electricity supply among the leading four factors dropped to four. This shows that there has been some easing of the tight power supply. In other words, the power supply factor has been replaced by other limiting factors. Among the surveyed enterprises, raw materials were the foremost limiting factor in seven industries in the first quarter, while in the second quarter it was the foremost factor in 11 industries. This change shows that the primary limiting factor for short-term economic growth is raw materials.

#### V. Different Price Changes in Enterprises of Different Scale and Ownership System

It is possible to calculate fluctuations in ex-works prices for industrial goods in the 13 industries according to such indicators as volume of sales of principal products and sales income.

Comparing the first quarter of this year with the same period last year, the ex-works price fluctuation factor for industrial goods in all the enterprises was 1.086; for planned prices, the factor was 1.070, and for guideline prices, 1.089. For other prices (enterprise-set prices, negotiated prices, etc.), the factor was 1.141.

Dividing the enterprises by type of ownership, collective enterprises had a higher factor of fluctuation in ex-works prices for industrial goods, reaching 1.194; among state-owned enterprises, the factor was 1.083.

By size of enterprise, the overall price fluctuation factor for large enterprises was 1.081; for medium-size enterprises, 1.086; and for small enterprises, 1.158. This shows that ex-works prices for goods produced by small enterprises rise most quickly. The rise in "other prices" was fastest among large enterprises, reaching 15.9 percent. This is primarily due to stringent state control over planned and guideline prices for large enterprises, which allows the large enterprises leeway only in "other prices."

13322

#### FINANCE, BANKING

##### Bank Experiment Points Way Toward More 'Enterprise-Like' Operations

40060027 Beijing JINRONG SHIBAO in Chinese  
17 Sep 87 p 3

[Article from the Financial Research Institute of Chongqing's People's Bank: "Lessons in the Practice of Setting Internal Bank Fund Rates." First paragraph is the article's subtitle]

[Text] The failure to accurately determine the price of funds is the key to the failure of the specialized banks to convert to enterprise-like institutions. Chongqing's Industrial and Commercial Bank's experience in setting internal bank fund rates provides a valuable lesson to all primary-level specialized banks in how to operate more like enterprises.

In its reform to operate more like an enterprise, Chongqing's Industrial and Commercial Bank has introduced a method of setting internal bank fund rates for all local branches within its jurisdiction. This process eliminates outside interference and creates favorable conditions for branch banks at the grassroots level to assess costs accurately, monitor banking operations and efficiency, and truly become more like an enterprise in its operations. The bank first tried out the system in its Nanan District's Danzishi branch and obtained excellent results: both deposits and loans increased and the degree of fund self-sufficiency improved (deposits increased 44.4 percent; loans increased 47.6 percent, and fund self-sufficiency increased 16.3 percent to a rate of 82.8 percent.) Although this has been a local and limited experiment, it has provided us with a feasible choice under present circumstances.

Why is it so difficult for banks to operate more like enterprises? One crucial factor is their failure to accurately calculate a price for funds. For the banks to operate like enterprises they must first solve the problem of determining fund prices. Banks handle a commodity

called money (funds), and its price is in the form of interest. If the bank pays higher interest for deposits than what it can charge for loans, expenditure will exceed revenue, and it will suffer losses. However it is not uncommon for interest rates on loans to be lower than interest rates on deposits—many low-interest loans designed to fulfill a given policy are in this category. This phenomenon makes it very difficult to determine the price of funds. The failure to ascertain fund prices makes it impossible for banks to operate like enterprises. The main significance of the Chongqing bank's establishment of an internal fund rate and the adjustments made possible by these internal rates is that it makes enterprise-like operations more possible. .

Chongqing's Industrial and Commercial Bank's internal fund rates are based on the following principles: using industry-wide interest rates as the standard, the bank employs variable interest rates. When the branch banks deposit money in the main bank, the interest rate they receive is higher than that they must pay when borrowing money to in turn lend out.. The bank also sets up different interest rates for different kinds of deposits such as ordinary deposits, demand deposits, and time deposits. Interest rates on loans also vary depending on the level of risk, the amount of processing involved, and whether the bank wishes to encourage or limit the given type of loan. In the various fund transactions, the interest rate will go up if deposits in the main bank are in excess of a base amount and if temporary loans are given. Penalties are levied when temporary loans are not paid off on time or when loans are not amortized above a certain base figure.

Along the same lines as the above principle, the bank manages credit funds according to a principle which emphasizes unified planning, ascertains the amount of funds, changes the relationship between the main and subordinate banks to one based on deposits and loans, and manages flexibly. Unified planning means bringing all credit receipts and payments of the subordinate branches into the main bank's calculations of its credit receipts and payments. Appraising funds means to determine that subordinate branches have a base amount of working capital receive full compensation when their funds are used. Carrying out a policy of loans and deposits between the main and subordinate banks means that in transactions between the two, allocated funds are substituted with deposits and loans, compensated use of funds, and differences made among interest rates. Flexible management means that under the guidance of the credit receipt and payment plan of the main branch, the subordinate branches may freely circulate credit funds in industrial and commercial projects; the more deposit they have, and the higher their income, the more money they can lend out, as long as they abide by state policies and financial rules and regulations, and as long as they do not exceed the two mandatory quotas: the base amount of funds established by the main branch and the amount of fixed asset loans allocated from above.

The base amount of working capital in the subordinate local branches is determined by the following formula: the base fund should equals actual funds used at the end of last year multiplied by the coefficient of funds verified and appropriated plus or minus major extraordinary use of internal funds at the end of last year.

The coefficient of funds verified and appropriated is determined by the city branch's steady source of funds divided by actual use of fund in all banks at the end of last year.

Since this method of managing internal fund prices is practised locally and in a closed format, special accounting management methods are necessary, and special accounts are created to facilitate accounting and book-keeping. They include an account for deposits in excess of base amount, an account for provisional loans, an account for overdue loans, an account for outstanding funds, an account for transferred cash loans, and so on. Transactions between the primary level subordinate branches and the main branch are conducted under city jurisdiction.

Chongqing's Industrial and Commercial Bank's policy of setting internal bank fund rates represents the first step in realizing the goal of having all banks at the grass-roots level operate more like enterprises. However it was a partial and restricted experiment under existing conditions. Full-fledged conversion to enterprise-like operations requires solutions to the following problems. First, we must clarify the relationship between the Ministry of Finance and the banks. In China, although the state banks are responsible for the implementation of state policies and development of the economy, these tasks can be achieved only by gathering and distributing funds to support and guide the development of enterprises, and by utilizing economic tools such as credit and interest rates. We cannot defy the law of value, or deviate from enterprises-like practices, and require the banks to accommodate loans created to fulfill a given policy by lending out money below cost. We cannot shift the burden of the Ministry of Finance to the banks. If low-interest loans or interest-free loans are necessary, the government must make up the difference with subsidies. Many comrades think that cost and profit are interrelated; extending low-interest or interest-free loans increases the bank's costs and at the same time decreases the amount of profit it can turn over to the government, and in fact this is still "eating out of the same big pot." We believe in putting the responsibility where it belongs, otherwise the banks cannot assess their costs and monitor their performance. Second, we must change the situation where everybody has a hand in fixed assets and the banks monopolize all working capital. Third, we need to adjust prices gradually, ease the control on interest rates slowly, and stimulate the market step by step.

At present China's market mechanism is imperfect; the money market has just opened, and things are not yet compatible with a planned commodity economy. To

avoid supplying funds from "one big pot," we must change the system of vertical allocation and appropriation of funds, and initiate massive horizontal distribution of funds. To achieve this end, besides letting the grass roots banks control the use of their own funds so that they can become economic entities which are relatively independent, we must also develop lateral economic ties vigorously, and open up ways for funds to be circulated across the economy. Therefore it is imperative that we expedite the development and perfection of the money market.

12986

### Reasons, Remedies for Slow Financial Market Growth

40060016b Beijing JINRONG SHIBAO in Chinese  
1 Oct 87 p 3

[Article in "Synopsis" Column by Wang Ji [3769 7535], Wang Zhiyi [3769 1807 0001], Bo Lingyuan [5631 0407 7189], and Lu Jiming [0712 2516 2494]: "Causes and Remedies For the Slow Progress in the Development of the Financial Market"]

[Text] Several important factors are responsible for slowing the development of the financial market:

1. The absence of broad-based participation impairs market vitality. At present, only the state's financial institutions are participating in the financial markets nationwide while the most direct suppliers and consumers of funds, that is, industrial and commercial enterprises, government departments, nonbank financial institutions, and individual businesses are excluded from the fund markets and cannot participate in direct fund transactions. This limits the opportunity for society to make funds available to, or obtain funds from, the financial market, thus impairing market vitality.

2. Specialized banks are not yet operating like enterprises, which diminishes their initiative to circulate funds. Because the state banks are not yet operating like enterprises, the volume of fund circulation and the level of profit are not linked to the benefits of the banks or their staff and workers: there is no pressing need to circulate funds; there is little pressure, and there is little incentive.

3. Monotonous credit instruments: The utilization of a diversity of credit instruments is the basic requirement, and a sign, of an active financial market. At present China has issued only a few stocks and bonds, and most of them cannot be traded publicly in the market; these tokens of the financial market basically have become just another form of monetary fund, and this clearly limits the role of the market.

4. Local market segmentation and duplication: Since last year, various specialized banks have set up their own capital markets, and as a result the financial market is

being divided up into several markets within the same region. This interrupts the horizontal distribution of funds, and in turn obstructs the development of the market.

5. Inadequate information regarding funds, and lack of versatility in the transfer of funds: Because of their limited scope and the absence of unified market mechanisms, there is poor communications among the various specialized bank markets as well as the regional markets, and funds cannot be transferred promptly between different industries and different regions to adjust for deficiencies or surpluses. This limits the effective use of idle funds, and reduces the ability of the financial market to gather and distribute funds.

6. Fund prices are too rigid and fail to respond to market conditions. At present China's financial market limits the fluctuation in fund prices to within a narrow range, and these are officially set prices which are inflexible so that there is little profit for the market operators, and it dampens their enthusiasm for fund transactions.

7. The central bank fails to give full play to its role as manager and regulator. At present the central bank lacks management and regulatory mechanisms; it can neither absorb the surplus funds from the specialized banks, nor can it properly fulfill its role as lender of last resort.

8. There is no secondary market, and this hampers the development of the financial market. Based on the above discussion, we have a few suggestions for perfecting the financial market mechanism:

a. Broaden the scope of participation in the financial market. Before the commodity economy is thriving and a complete and unified market system is fully developed, we can set up a credit-rating system and permit industrial and commercial enterprises with good credit rating to enter the market to gather and distribute funds directly; offer them a free choice of markets, and allow them to obtain the best available funds (based on interest rates). At the same time, even those enterprises with poorer credit rating may take part in market activities on a limited scale, by putting up collateral. Actively attract nonbank financial institutions to participate in the market, and encourage qualified government organs to enter the market gradually.

b. Increase credit instruments systematically and in a timely manner. We must improve the way stocks and bonds are regulated. Cities which handle a high volume of clean bills should start security exchange operations, and open up secondary markets, thus permitting circulation and trading of a variety of unsecured bills and notes. At the same time, take strong action to modify the loan composition to reduce the proportion of credit loans while increasing loans in the form of discounting and collateral loans, and vigorously promote bill acceptances and discounting operations.

c. Strengthen the central banking mechanism, and perfect the financial market network. The People's Bank should set up several central regulatory markets in some of the larger economic zones in the nation, and systematically guide the horizontal distribution of funds generated by the specialized banks. Concurrently, we should allow the specialized banks in the more developed regions to set up regional markets and participate actively in the main regional market of the People's Bank to form a financial network in a unified market.

d. Establish flexible fund prices in accordance with the objective demand of the law of value among all commodities. The fund price should be established at a rate acceptable to both buyers and sellers, based on the state's floating interest-rate policy and with comprehensive consideration given to the cost of funds, the state's and enterprises' ability to pay, and their attractiveness to the investors.

e. Speed up the conversion of specialized banks to institutions which behave like enterprises to facilitate the development of the financial market.

f. Strengthen financial regulations and perfect the market system.

12986

### Regulations To Restrict Banks' Overlapping Operations

40060016a Beijing JINRONG SHIBAO in Chinese  
5 Oct 87 p 1

[Article by Chen Xu [7115 1776]: "Special Banks' Overlapping Operations Should Be Restricted by Policies, Laws, and Regulations"]

[Text] Overlapping operations between special banks has promoted expansion of financing methods and development of the urban and rural economies. But having recently investigated circulating fund loans to several Chongqing enterprises, we have come to understand that irrational overlapping bank operations have certainly caused many disadvantages for both banks and enterprises.

—Loans being made by too many financial institutions have increased enterprise funds too sharply. By the end of May 1987, the Chongqing No 3 Radio Factory had overstocked 39,000 black and white television sets, accounting for 12,856,000 yuan, or an increase of 3,373,000 yuan over the same period in 1986. But by the middle of May 1987, it owed 58,552,000 yuan to five financial institutions, the Industrial Commercial Bank, the Bank of China, the Agricultural Bank, the Overseas Chinese Financial Service Department, and the China International Trust and Investment Corp. Enterprises can acquire necessary production funds through methods such as speeding up sales, reducing finished product volume, issuing commodity shares, and speeding up

arrears collections. But since so many banks have been competing to grant them loans, they have not been interested in tapping their own potentials and, despite being heavily in debt, have still been borrowing money everywhere they could.

—Investment competition has violated credit policies. When the Chongqing Cigarette Factory asked the Industrial Commercial Bank for a loan to pay taxes, the bank pointed out immediately that direct use of loans to pay taxes was not in line with its principles and, moreover, that the enterprise had long been 16 million yuan in arrears with its credit fund payments. But with no formalities, another bank quickly loaned the enterprise 3 million yuan to pay its taxes. When the enterprise needed to borrow another 1 million yuan, this bank actually transferred it to the enterprise's savings account without the enterprise's consent. Our investigation shows that four financial institutions have loaned money to the Chongqing Cigarette Factory.

—Credit accounts being opened and many accounts being closed have delayed inventories. A survey conducted by relevant departments shows that seven large and medium-sized Chongqing enterprises have 148 million yuan of idle funds due to things such as unmarketable products, overstocked spare parts, overstocked raw and processed materials for abandoned projects, and closed or transferred bad debts, dead accounts, and defaulted loans. Enterprises opening credit accounts, and more than one bank lending money to a single enterprise, have made it impossible for banks and enterprises to make concerted efforts to tap potentials and have caused serious problems of overstocking and waste. The Chongqing No 3 Bearing Plant incurred losses of more than 300,000 yuan due to factors, such as poor management. When it asked the Industrial Commercial Bank for an additional loan, the bank asked it to suggest ways to tap its potentials and make up its deficits, whereupon it found another bank which immediately loaned it 730,000 yuan. This was in addition to the 385,000 yuan of circulating funds that it had borrowed from the Industrial Commercial Bank.

Overlapping operations between special banks is a major step in banking reform. But the overlapping must be appropriate, and the overlapping process should be restricted by relevant policies, laws, and regulations. Otherwise, unrestricted overlapping operations will cause unnecessary economic losses.

12267/9604

### Suggestions For Spurring Development of Financial Markets

40060012 Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese  
No 38-39, 20 Oct 87 p 14

[Article by CHING-CHI TAO-PAO reporter Cui Yang [1508 2254]: "A Possible Course of Development for China's Financial Markets"]

[Text] Financial markets have sprung up in various locations in the wake of continuing reform of China's financial system. The financial markets, of course, are still at an early stage of development. In view of the present situation, we could consider the following measures as further steps in reform: 1) adopting supporting measures that will carry on the reform; 2) improving macrocontrol; the People's Bank should fully function as a central bank, improve supervision, and promote the healthy development of financial markets.

#### I. Further Develop Interbank Lending and Borrowing of Short-Term Funds

Interbank lending and borrowing for the most part is accomplished through planning departments. Only when funds are insufficient and higher banks are also incapable of handling the situation do we resort to the market. Because information is insufficient, this type of lending and borrowing is to a certain extent done blindly. In order to further encourage and expand interbank lending and borrowing, the duties of the planning departments of specialized banks has begun to include raising and circulating funds. Some already have set up specialized fund raising components at all levels, are engaged in buying and selling on the money market, and have promoted interbank lending and borrowing as a regular practice. The trend is for the development of a unified interbank loan market starting from the key cities with developed commodity economies and financial services, and involving central banks, as leaders and specialized banks, as primary actors, and other financial institutions, as participants. There principally are four types of fund circulation networks: interdepartmental, open policy networks of the economic zones; networks formed at the same economic level; networks formed by those engaged in the same, frequent business contacts; and networks of a given region.

Specialized banks at both the main office and branch office levels have moved away from being simple administrators to being managers of their operations. Circulating funds at higher levels has become an important component of each specialized bank's restructured financial management system. Clearly the trend of development of China's financial markets will be in the form of fund circulation networks on a provincial and national scale.

#### II. Significantly Expand Note Markets in Experimental Cities

In restructuring banking operations, the business of honoring, discounting, and rediscounting commercial notes is always difficult. Since China's financial circles undertook this reform, there have been difficulties throughout, not much progress has been realized, and what little progress there has been was slow in coming. Experience shows that to enable this reform to take hold in a large area, the next objective is to devote major

efforts to popularizing commercial notes in the 27 experimental cities. The central banks must promote discounting and rediscounting through such measures as formulating rediscount methods and implementing preferential discount rates, try to bring the volume of discounted bills in the experimental cities to 30 percent of enterprise loans, and gradually lessen unsecured loans.

#### III. Develop Long-Term Financial Markets in a Planned Manner

Enterprise bonds, financial bonds, and key construction bonds worth many tens of billions of yuan have been issued in China in recent years, so in reality, long-term fund markets have emerged. But because of the extreme disparity between supply and demand of fixed asset investment funds, long-term fund markets await appropriate developments. One such development would be for non-banking financial institutions, such as construction and development trust companies, leasing companies, and investment companies, to issue bonds, primarily domestically, to raise money. Another would be to propel enterprises toward the marketplace, to circulate capital directly on the open market by issuing stocks and bonds, and to change the situation where all financial needs are guaranteed by the state. Still another development would be for the central banks to gradually to cut back on loans to specialized banks, to take a portion of credit funds from the totality of such funds to support securities companies and short-term fund companies which service the market, and by purchasing enterprise bonds through these companies, to nudge the enterprises toward the marketplace.

An inability to solve the problem of transferring bonds not only has affected bond issuance, a bond black market has emerged as well. Some of the experimental cities will open secondary markets in a deliberate manner, and study and summarize bond transfer experiences and methods.

#### IV. Give Dual Interest Rates a Try

What China has implemented over the long term is a highly centralized and unified planned economy. The archaic interest rate mechanism has affected financial market development. Consequently, making interest rates more elastic and adequately managing interest rate relations is the next important step in reform. Wenzhou Prefecture's specialized banks were the first to implement a mechanism for dual interest rates. They have at present tentatively formed a multi-level flexible interest rate system combining floating interest rates and elastic interest rates keyed to standard bank interest rates. Practice has proven that freeing and enlivening interest rates helps in raising and circulating funds, and in supporting economic development. Inspired by experiences in places such as Wenzhou, the cost of funds freed to enter the market resulted in interest rate changes

which were consistent with fund supply and demand, and this is a notable characteristic of financial market development in present-day China.

#### V. Improve Management at Basic Level Specialized Banks

The key to making specialized banks behave like enterprises lies in improving internal management. Through perfecting an internal management mechanism centering on a combination of responsibility, authority, and profits, expanding financial strength, and increasing competitiveness and fund utilization, we can gradually change the bank offices of the cities into financial enterprises which run operations, take sole responsibility for profits and losses, assume risks, and initiate their own development. This not only would be an important step in getting the banks to behave like enterprises, it could provide additional motivation for basic level banks to enter the market to circulate funds as well, which would aid the development of financial markets.

#### VI. Consolidate Management of Stocks and Bonds

We must consolidate management of public fund raising. There has been some development in recent years in economic activities by China's industrial and commercial enterprises to raise funds from the public through stocks and bonds, but a prominent problem is lack of management, and the problems are numerous. For example, some locales have haphazardly issued stocks and bonds to raise funds, and have expanded extra-plan investment in fixed assets. Others have forced apportionment, which has made it difficult for the enterprises and masses to endure. In order to concentrate financial power and ensure state key construction requirements, we must consolidate management of stocks and bonds. Henceforth, stocks principally must be issued by a few collectively-owned enterprises which have been approved to do so. Enterprises owned by the whole people could issue bonds but they may not issue stocks to the public. When financial institutions issue bonds, they must do so strictly in accordance with the unified plan issued by the central banks. From now on the scope of public fund raising must be strictly controlled. The People's Bank of China can, in conjunction with state planning and fiscal departments, formulate annual control numbers for bonds issued by enterprises nationwide, and hand these down for implementation by the individual provinces, autonomous regions, directly administered municipalities, and municipalities directly controlled by a provincial government as listed in the plan.

Issuance of stocks and bonds will gradually be standardized. As for existing stocks and bonds, there must be major changes to clear up the confusion between bonds and lottery tickets. At the same time, the enterprise credit rating mechanism first must be developed quickly for large and mid-sized cities with prospering commodity economies, to protect the interests of the investors.

12513/09599

### SMALL-SCALE ENTERPRISES

#### Uneven Distribution of Township Enterprises Termed Problem

40060047 Beijing JINGJI CANKAO in Chinese  
20 Oct 87 p 4

[Article by Zhang Jihai [1728 3444 3189]: "Distribution of Township Enterprises is a Problem Deserving Greater Attention"]

[text] Surveys estimate that 12 percent of China's township and town enterprises in 1985 were distributed in market towns, barely 1 percent in cities above the county level, and more than five-sixths in townships and villages. In the suburbs of Shanghai, for instance, less than 20 percent of the enterprises run by townships and villages were established in market towns, but the number of different kinds of enterprises scattered in townships and villages reached as many as 3 per square kilometer. Like a "star-studded sky" and loosely-knit as "a sheet of loose sand", the distribution of the enterprises has brought about numerous problems:

1. Taking up too much land by enterprises is costly. On a per worker basis, land taken up by township and town enterprises is now over three times that of enterprises in cities. As these township and town enterprises across China are absorbing 80 million rural laborers, they are also taking up at the same time nearly 100 million mu of cultivable land.
2. The investments in and the fixed costs of the enterprises are excessively high, causing huge waste. As the factories are constructed in a dispersed manner, infrastructure cannot be provided for on a unified basis. Almost every factory has its own set of facilities for delivery and conversion of electricity, water supply, sewage, transportation, and communication. Feeder lines and cul-de-sacs are long and many and a mere waste of financial and material resources. Some of the factories even set up their own electricity generation and testing facilities, creating a "small and comprehensive" set-up which occupies excessive fixed assets but with a low utilization rate.
3. It is detrimental to the management and development of enterprises. The dispersed distribution of factories in the countryside has hampered the transportation of goods and materials, information transmission, and funds settlement, leading to higher costs and slower responses to the market. Furthermore, it has hampered the integration among enterprises, making the stages of cooperative production impossible to dovetail locally. And the linkage between the enterprises and the city as well as the market is particularly impeded, which makes management and integration of the market as well as the introduction of technology very difficult.

4. It does not help improve the industrial structure. The scattered distribution of rural enterprises as well as the weak driving force of urban infrastructural development, culture, science and technology, and different public services and facilities have impeded the spread effect of small towns and the development of tertiary industry, affecting in turn the enterprises themselves. A scattered distribution of enterprises is in fact spatially irrational in industrial structure, which unavoidably aggravates the disproportion of sectors in the industrial structure.

Moreover, although setting up factories *in situ* makes it convenient for peasants to "have their meals and sleep at home, while working in factories", and to "work in three shifts in factories, and engage in agriculture in the morning, at noon and in the evening", it is, after all, unfavorable for the improvement in quality of the enterprises' staff and workers, for suitably centralizing farmland and for pollution abatement. All this will play down the positive role of the enterprises.

The scattered and haphazard distribution and its concomitant drawbacks are not inherent to township and town enterprises, but rather they are consequences of the traditional misinterpretation of the concepts of natural economy and commodity economy, of a long-standing partial understanding about "the several ways of exploiting local resources", "making do with the meager means at hand" and "leaving the soil but not the village", and of the neglect of an appropriate regional planning and spatial distribution for township and town enterprises.

The practice of running multi-stage, multi-layer, and multiple-ownership township and town enterprises will result in many decision makers and investment bodies, practically making land use management more difficult. The key issue, in fact, lies in a correct understanding of the location of enterprises.

First, the location of township and town enterprises should be treated as a strategically important issue. Local governments should designate authoritative agencies for rational regional planning and for guiding location planning for the enterprises. Departments involved in comprehensive planning should consider and take charge of both the spatial distribution of urban and rural industries and their sectoral proportion and structure.

Secondly, it is necessary to create conditions favorable for reasonable spatial concentrations of township and town enterprises. Through planning and establishing industrial development districts or zones, constructing infrastructure, such as roads, electricity and water supplies, facilities for communication and environmental protection, and promoting public service facilities, in accordance with the construction plan for small towns, with the needs of both the division of community functions and basic complementary facilities, and with the principle of uniformity, counties and villages may attract key enterprises to agglomerate in market towns. In county-level towns and medium cities, sites may be

reserved for rural industrial plants. Land may be designated for township and town enterprises under unitary planning and then expropriated or leased by township or village enterprises. Villages in frontier or remote districts wishing to construct factories in these towns and cities may even be given preferential treatment by means of lending or exchanging land.

Thirdly, the spatial concentration of enterprises should be expedited by means of legislative controls and economic guidance. These include formulating local policies and laws and regulations which stipulate that new factories of certain trades and certain sizes must be constructed within designated regions; strictly enforcing the "land law" to prohibit the practice of "setting up enterprises by pooling land as shares" and to perfect the evaluation and approval system of the expropriation of land; enterprises which are dispersed and occupy too much land should be charged high land rentals and maintenance fees for water conservancy; enterprises within designated regions could be charged at a lower rate for a longer span of time for infrastructural facilities, be given priority to water, electricity, and other energy supplies, and be given preferential treatments in terms of taxes, loans, and other financial supports.

Fourthly, for existing enterprises whose location selection and distribution are grossly inappropriate, plans should be made to amalgamate, adjust and remove them by stages and in groups without delay.

13339

## FOREIGN TRADE, INVESTMENT

### Reasons for 'Standstill' in Japanese Investment Discussed

40060022a Shanghai SHIJIE JINGJI DAOBAO in Chinese 19 Oct 87 p 2

[Article by staff reporter Mou Jun [3664 6511]: "Japanese Investment Is at a Standstill in China While Increasing Sharply Elsewhere in the World"]

[Text] While overall investment overseas by Japanese enterprises increased 60 percent between 1985 and 1986 to a total of \$22 billion, a phenomenon that has caught the eyes of many, Japanese investment showed no increase in China. Keiichi Konaga, adviser to the Industrial Bank of Japan and Japan's Ministry of International Trade and Industry who has come to China for a visit at the invitation of the State Planning Commission and was interviewed by this reporter in Beijing last weekend, expressed "regret" about the situation.

Mr Konaga, 57, was a senior adviser in the cabinet of Kakuei Tanaka and played a major role in conceiving the "theory of the reform of the Japanese Islands." He served as Prime Minister Kakuei Tanaka's secretary and vice minister of international trade and industry and is widely recognized for his outstanding contributions to

Japan's industrial policy and theory. He has played an active role in organizing efforts to promote the normalization of relations between China and Japan and the development of trade between the two countries. He is full of confidence in future development of economic and trade relations between China and Japan. However, he also expressed his views on the current trade problems between the two countries without mincing words. He summed up the general opinions among Japanese businessmen engaged in trade with China as follows:

1. China as yet has no sound, comprehensive foreign investment law. There are things that must be acknowledged and confirmed, and this is usually accomplished by signing contracts. The practice is time-consuming and inefficient, and its enforcement is uncertain and far from reassuring.
2. Joint ventures are generally obligated to fulfill certain export quotas, which may interfere with their independent management.
3. The Chinese side requests that the joint ventures aim at obtaining all their parts and components from domestic suppliers. However, the domestically produced parts and components often fail to meet their standards.

After presenting the above views, he expressed the hope that China could use for reference the successful measures adopted by Japan on importing advanced technologies in the 1960's when Japan was about to enter a period of high-speed growth—to import first the needed technologies from abroad based on domestic conditions and in the order of importance and urgency.

This well-known Japanese businessman, who came to China for the first time with Prime Minister Kakuei Tanaka in 1972 and later visited China three more times, was rather impressed by the efforts being made by China, particularly by the Tianjin Economic and Technological Development Zone, to improve the investment climate for foreigners. He said that he would inform Japan's business circles of what he has seen and heard in China when he returns home.

Japan has unveiled its "new Asian development plan aimed at helping the developing countries to develop their export industries." Mr Konaga disclosed to this reporter that a decision has been made between the Chinese and Japanese governments and related departments to designate Qingdao as a major investment area under the plan. Konaga added that if the plan can be effectively combined with nongovernmental investment, it will produce an even greater impact on the development of new industries in the developing countries.

Asked by the reporter to give his view on the recent Toshiba incident which has seriously affected technological and trade relations between China and Japan, Mr Konaga said that though it has caused some problems in Japan's technological exports to China, it cannot shake

the foundation of the technological and trade cooperation between the two countries, and that positive efforts are being made by the Ministry of International Trade and Industry and other government departments to solve the problems.

The NIHON KEIZAI SHIMBUN on 10 October carried a report on a "policy decision by the Ministry of International Trade and Industry to relax restrictions on export to China," confirming that Japan will further liberalize exports to China and will substitute the Toshiba machinery company's export contracts with China with products of other manufacturers.

12802/12913

### Optimizing Export Mix by Developing Industrial Strategy

40060021 Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 9, 27 Sep 87 pp 22-23, 32

[Article by Meng Jixin [1322 4764 2450]: "Industrial Strategy Must Orient itself to Modernization, the World, and the Future."]

[Text] China's current backward export mix not only places the nation at a severe disadvantage in international exchange, but also constitutes a stumbling block to the development of foreign trade that is worsening by the day. According to the forecasts of Chinese economic and trade experts, it is a long-term international trend for the prices of primary products to stay depressed. Australia, the nation once touted as "riding on the back of sheep and sitting on top of a gold mine," has fallen on economic hard times. One of the reasons is its over-dependence on primary products, thus rendering itself highly vulnerable to the slump in world prices and protectionism in major trading nations. Also hard hit are many other nations in the world whose exports mainly consist of primary products or simple processed goods. Thus it has become a matter of top priority to optimize China's export mix without delay.

Many articles have appeared in China in recent years on how to optimize the nation's export mix, but few have grasped the crux of the matter. After analyzing the export history of the U.S., West Germany, Japan, and South Korea, this writer concludes that an optimal export mix should largely be effected by adjusting the industrial structure. Without an advanced industrial structure, there is unlikely to be an optimal export mix. And the key to an advanced industrial structure lies with the dissemination and application of advanced science and technology. To optimize the export mix and achieve a breakthrough in China's export trade, therefore, requires more than creating an export commodity production system. More important, it calls for a commitment to drawing up a clear industrial strategy and ensuring its implementation through the nation's own scientific and technological forces or imported advanced foreign technology. The creation of an export production system

means selecting from the current lineup of exports certain key commodities which promise to sell well abroad and earn more foreign exchange and which have a higher economic return, as well as establishing an export production circulation system to increase exports and foreign exchange earnings. It may result in more higher-quality exports and a furthering of the extent of production processing, but it does not rise above the confines of the existing range of export commodities. It may help improve the nation's present export mix in the short run, but it does nothing to optimize it in a fundamental way. To do that, we must put our heads together and hammer out an industrial strategy promptly.

An industrial strategy must suit both the domestic and foreign economic environments. It must promote the optimization of the export mix and the expansion of foreign trade. More important, it must contribute to economic revival and prosperity. Thus it must observe the "three-orientation principle." That is, it must be modernization-, world-, and future-oriented. In addition, I believe we should pay special attention to the following issues when we work out an industrial policy:

1. There should be a correct, objective, and scientific assessment and analysis of our advantages.

1) It must be fully realized that advantages are relative. In analyzing our advantages, we must not limit ourselves to the geographical, natural, and resource advantages of just our own country or region.

Instead, we must put them in the international context and objectively analyze whether they offer real comparative advantages. Otherwise, what is a national or regional advantage may turn out to be an international disadvantage with no comparative value. Naturally a strategy founded on this basis will not work.

2) It must be realized that advantages are changeable, not immutable. What was an advantage in the past may not be one today. Similarly, what is an advantage now may not remain one tomorrow. In analyzing advantages, therefore, we must not concentrate only on just those traditional products currently enjoying strong sales on the international marketplace and make them the thrust of our strategy. One of the attributes of a strategy is its long-term nature. Many of the traditional products which account for the lion share of China's current exports have been hit hard by fierce competition on the world market. Hence the need for us to base ourselves on scientific forecasting and seriously analyze which products will lose their market advantage and which will be able to withstand the long-term test of the market. Even more important, we must make an effort to seek out commodities that will enjoy a market advantage in the days ahead. In short, we must analyze and compare advantages based on market trends.

3) We must analyze the two environments—domestic and foreign—comprehensively and grasp the favorable circumstances. In this respect, Japan's and South Korea's industrial policy drawn up during their economic resurgence is definitely a source of enlightenment for us. In the 1950's, Japan's industrial structure was dominated by such light industries as fibers and sundry goods. After entering the 1960's, however, the nation quickly switched to iron and steel, chemicals and machinery as its industrial mainstay and lost no time in optimizing its export mix. If we look at Japan's resources, capital, and markets at the time, we must say it was unequipped to build an iron and steel industry. Resolutely, however, Japan decided to purchase from abroad large amounts of coal, iron, and other raw materials and import at great expense the most advanced foreign steel-smelting technology and equipment. In the end, it succeeded in becoming a leading iron and steel producer, which not only powerfully fueled the development of industrial production and increased its economic prowess, but also reaped significant comparative benefits in international exchange. In its export drive in the 1960's and 1970's, South Korea, like Japan, decided against focusing on light industrial and textile products at the middle and lower-end of the market, commodities that enjoyed an advantage at the time. Instead, by attracting foreign capital and importing foreign technology, it went all out to build up its machine, iron and steel, electronic, and auto industries which could then be described as being in an unfavorable position. After over 2 decades of hard work, what has emerged is a highly competitive industrial structure. It can thus be seen that in our deliberations on the industrial strategy, our vision and thinking must not be restricted to our nation or region. We must consider and make decisions in the context of a larger environment, the world. We must also be adept in exploiting foreign resources, capital, technology, and markets, take the strategy as our starting point, and catch up and overtake other nations when the conditions exist. We must identify a number of sunrise industries with a large prospective international market and rapid growth potential (such as bioengineering, new materials, and fiber optics) and nurture them into genuine powerful strategic industries, thus laying a solid base for optimizing the export mix.

2. To boost exports, localities across the nation in recent years have scrambled to draw up an export commodity development strategy. Almost without exception, however, I find that these strategic blueprints call for increasing the share of electronic machinery goods in total exports as the "goal" and "hallmark" of an optimal export mix. I believe that not only is this cookie-cutter type of planning and decision-making unscientific, but it will also do a great deal of harm in practice. This is because comparative advantages are changeable. Popular products with an advantage in the international market will not remain so forever. It is possible that electric machinery goods, which have a distinct comparative advantage today, may not be so favorable at the end of the century or the beginning of the next, and may

be replaced by new products with a comparative advantage. In its policy statement for fiscal 87, Japan explicitly proposed that the industrial structure be adjusted, new industrial terrain be expanded, and new industrial superiority be found through the development of state-of-the-art technology to preserve Japan's lead in the coming century. The new terrain will include aerospace and aviation technology, information technology, new materials science, and bioengineering, etc. Foreign experts have noted that "the next 20 years will be the age of biology, just as the past 20 years have been the age of microelectronics." It is foreseeable that it is the high-tech products of sunrise industries that will enjoy a comparative advantage in the international market in the future. If provinces and cities fail to appreciate this clear-headedness and continue to duplicate one another's technology and equipment imports at great expense in their pursuit of an electrical machinery industry, they will still be unable to discard the backward export mix or to optimize it by the end of the century. Instead, they may find themselves engaged in cutthroat competition with one another. Thus there is no universally applicable export structure. Provinces and cities equipped to turn out popular and marketable electrical machinery products in the short- and medium-run should do so as soon as possible. Other provinces and cities should improve their product mix based on their own specific conditions and characteristics. No uniform model should be imposed across the board.

3. While the adjustment of the industrial structure must proceed in stages, it must not be fragmented.

Since China's industrial structure remains very backward on the whole, it is difficult to upgrade it in the short run. In drawing up an industrial strategy and analyzing the industrial structure, therefore, we need to divide it into stages, with each stage—short-, medium-, and long-range—having its own priority industries. But dividing the process into stages should not be read to mean that we need not take actions now to develop medium- and long-range industries. On the contrary, I believe we should energetically marshall forces and create all sorts of conditions from this point onward in order to create a sophisticated industrial structure ahead of time. In addition, learning from foreign experience, China must adjust the industrial structure at any moment in accordance with changing foreign and domestic conditions; it cannot afford to sit on its laurels.

4. With its 1 billion people, China pursues socialist modernization on the basis of self-reliance. Thus we want to develop an export-oriented economy on our own initiative, not passively. That is, we must not be dependent on foreign markets. It follows that in planning an industrial strategy, we must give full consideration to the exchangeability of the domestic and foreign markets. That is the only way to put China's industrial strategy on a relatively stable, solid basis.

5. An industrial strategy must be drawn up through comprehensive planning.

Apart from a national industrial strategy determined by the state, each province and city should also have its own mini industrial strategy. But local strategies should be scientifically reviewed by a panel of experts assembled by the state to make sure they are in line with the central strategy. This is the only way to achieve rational scientific planning and create overall advantages on a national scale.

12581

**Measures To Develop Overseas Engineering Contracts**

40060022b Shanghai SHIJIE JINGJI DAOBAO in Chinese 28 Sep 87 p 5

[Article by Xue Jiang [5641 3068], of the International Economic Cooperation Research Institute of the Ministry of Foreign Economic Relations and Trade: "In the Face of Hard Times in the International Service Markets, We Must Adopt Realistic and Flexible Strategies"]

[Text] The situation is grim in the international service markets. We must find solutions to the present problems and devise strategies for future development in order to win more construction and service contracts abroad and earn more foreign exchange according to the goals set by the Seventh 5-Year Plan. The following are strategies designed to increase China's share of the service markets abroad.

1. An "international economic cooperation financing organization (or bank)" should be set up with funds normally earmarked for economic aid, to finance large-scale expansion of our contract services abroad.

Since China began contracting for overseas construction projects in 1979, one major difficulty preventing Chinese firms from large-scale expansion into this field has been financing.

China is short on development capital. A sensible step to take is to put to rest the irrational assumption that economic aid funds are only to be used for foreign aid purposes, which has been in practice for more than 30 years. The more than 1 billion yuan of economic aid funds allocated each year can be used to set up an "international economic cooperation financing organization (or bank)," and the money should be apportioned among different fields of activities including foreign aid, construction projects abroad, international labor cooperation, development of nontrade enterprises overseas, and so forth. This will not increase the state's financial burden, but will result in a more sensible way to use the funds. This "international economic cooperation financing organization (or bank)," with its special status, can also function as an international banking institution, raise funds on a broad international scale, and provide

financial backing for Chinese firms to compete in the international service markets. It is a fundamental approach to solving the financing problem not only for Chinese construction companies to expand their overseas operations but for the development of international labor cooperation and nontrade enterprises abroad.

2. One of the major problems in the financing of overseas construction projects is the difficulty in obtaining foreign bank loans due to the lack of credit guarantees.

As an "international economic cooperation financing organization (or bank)" has yet to be established, one of the major problems urgently in need of solution is to provide our construction companies with the credit guarantees they need to apply for foreign bank loans. To obtain a foreign loan, a company usually must have a banking institution at home as its guarantor. But Chinese banks in general are not inclined to provide such credit guarantees. Some banks may reluctantly agree to serve as guarantors, but their procedures are complicated and take too long for the companies to submit bids before deadlines. Thus, many construction contracts, which could have been won, are given up. Unless this situation is improved quickly, our efforts to expand our overseas construction business will continue to be hampered.

3. Instead of concentrating on Iraq, we should move into other markets.

Iraq has been at war for 7 years at an enormous cost in material and financial resources. Its oil facilities have been damaged. The country is heavily in debt. Yet, despite its inability to pay what it already owes its foreign contractors, it continues to launch large-scale construction projects and fight the war at the same time. As a result, abnormal contract terms, requesting contractors to finance themselves, agree to deferred payments, etc., have been introduced. To undertake construction projects in Iraq today, the contractor runs the risks of nonpayment, interest loss on deferred payments, and even the loss of everything should the war situation turn against Iraq. Under the circumstances, it is necessary to take decisive actions. Except for a few key companies which have to remain in Iraq, other companies in general should accept no more deferred-payment contracts, but should seek business in other parts of the world.

4. There should be closer coordination between our economic and trade departments to properly handle payments receivable in kind and to promote export of Chinese materials and equipment.

Given today's depressed condition of the international service market and the fact that most host countries are short on cash, it is common practice that construction projects are paid for in goods or products such as petroleum, timber, ores, etc., instead of money. However, owing to the lack of cooperation between China's economic and foreign trade departments, companies

engaged in overseas construction projects generally receive no help from the foreign trade departments, and in most cases they are unable to find buyers either abroad or at home of the goods received as payment for their services. For this reason, they often give up opportunities to take on new projects.

If the foreign trade departments will cooperate with the construction companies, ship home the petroleum, timber, ores, and other products earned by the companies as import goods, or help the companies sell the products at home or in a third country, it will be a major breakthrough in China's effort to expand its overseas service markets. The construction companies can then take on new construction projects in developing Asian, African, and Latin American countries and accept payment in kind without fear. Conversely, when the construction companies enjoy growing prosperity abroad, they can help the foreign trade departments by using as much Chinese-produced equipment and materials as possible, thus saving foreign exchange, increasing exports, and contributing to the growth of foreign trade.

5. It is necessary to develop overseas construction design and consulting services.

Construction design and consulting services have become a very active and important branch of business in today's international service markets. In all countries, contracts for design and consulting services on large and medium-sized construction projects are awarded through public bidding. The winning firm will provide such services on the construction project as designing, planning, feasibility studies, investigations, and even on-site supervision. Even more important, it has a big say in examining the qualifications of competing construction companies and determining which one to be awarded the construction contract. It also has a certain influence on the materials and equipment to be used for the construction. We should vigorously encourage Chinese design departments to go abroad and take part in this field of business. It not only will contribute significantly to the expansion of the Chinese construction companies abroad, but will help increase China's material and equipment exports. It can also help raise China's engineering and design standards and promote international exchange of design ideas.

12802/12913

**Journal on Foreign Trade Macroeconomic Control**  
*HK110509 Beijing JINGJI GUANLI in Chinese*  
*No 11, 1987 pp 14, 17-19*

[Article by Bao Hongwai (7637 1347 0251) edited by LinDajun (2651 6670 0689) "A Study on China's Macroeconomic Control of Foreign Trade"]

[Text] China's entire pattern of economic control is now in the transitional stage of "replacement" between the old and the new. Although the old structure still plays the

leading role, certain changes have been made in it and the new structure is rapidly growing. Similarly, the pattern of our country's foreign trade control is in this transitional stage, and although there are various kinds of impediments in the way, the general trend has been formed and cannot be reversed. At present, the question for research and probing is not whether there should be a change in the pattern, but what kind of pattern of foreign trade macroeconomic control should be formed. This article purports to offer certain views on this.

## I.

The pattern of foreign trade control is an important component of the pattern of control of the entire national economy. It is a branch system subordinate to the general body of economic control system and is built and developed on the foundation of the pattern of control of the whole economy. Hence, the origin of the pattern of foreign trade macroeconomic control is the same as the origin of the pattern of control of the whole economy. In the course of the formation of our country's original economic pattern, due to the large influences from the Soviet pattern at the time, in general our country's foreign trade macroeconomic control pattern has been of the power-centralized type. In particular, since the completion of the socialist transformation of privately-owned import and export trade started in 1956, in order to implement the policy of unified control of foreign trade, all import and export businesses have been handed by state-run foreign trade specialized companies, import and export trade has been carried out according to state plan, and the state has enforced the system of the unified purchases of goods for exports and of the unified distribution and assignment of goods imported and has been solely responsible for profits and losses. Since then, a pattern of foreign trade control with a high degree of power centralization has been gradually formed.

However, since 1978, in order to suit the shift in the major tasks in national work and to implement the guideline of opening to the outside world and internal invigoration, relatively big reforms were made in the pattern of foreign trade control. For example, a change was made in the stature of the foreign trade department singularly running all affairs pertaining to foreign trade, the operation channels of foreign trade were expanded and increased, a portion of the power of import and export operations was dispersed and delegated to the lower levels, a number of new and specialized foreign trade companies were organized, the scope of the self-run export trade of the localities was enlarged, graded management of export commodities was enforced, the possible forms of industry-trade combination, technology-trade combination, and direct linking of production and marketing were probed into to bring about the organic combination of production on the one hand and trade on the other, and so on. It must be admitted that

the current pattern of foreign trade is greatly different from the original one and that the whole control pattern is in the process of a three-dimensional change.

Nevertheless, due to the lack of experience in operation and management and shortage of effective coordinating measures and the necessary rules and regulations, in the course of the change in the pattern of foreign trade control, there appeared in succession various malignant phenomena such as price-raising in purchases, price cutting in sales competition, administrative interference from various departments, overlapping transactions, many heads in negotiating with the outside, giving benefits to outsiders, and so on. It can thus be seen that although the current pattern of foreign trade is greatly improved over the original one, it is going through a transitional stage and is more or less experimental in character. It is still not an ideal type for the promotion of our country's trade. It also explains that the reform of our foreign trade structure is still in the probing stage of seeking a suitable pattern. For the sake of further improving the existing pattern, speeding up the development of the foreign trade enterprise, and continuing to find out the defects of the original pattern and examine the shortcomings of the existing pattern, it is still necessary to make an all-round comparison with the changes of the patterns in other socialist countries and to analyze their similarities and dissimilarities and advantages and disadvantages to learn from them the common laws and to set up at an early date a Chinese-type foreign trade control pattern.

## II.

After World War II, certain countries entering into the initial stage of socialist construction, just as our country, basically followed the Soviet Union's traditional pattern to form their own economic control patterns. Due to this historical origin, countries establishing the socialist system at that time all formed a more or less similar economic control pattern of the power centralization type. Following the development of the economy, the defects of this pattern have daily become more obvious and revealed its inadaptability. Hence, after entering the 1960's, certain East European countries, in accordance with the different conditions in their own economic development, carried out reforms on this pattern of a high degree of power centralization. Due to the differences in their state conditions, in the course of the changes in the economic pattern, the policies and measures adopted by the various countries were not all exactly alike, resulting in the formation of many kinds of patterns with different special features. In general, these patterns may be classified under three different types: The first type is representative of the patterns of the Soviet Union and Romania. It is a pattern of the centralized-control type with the special features of appropriately expanding the enterprises' autonomous operation power but under the precondition of state monopoly in foreign trade. The second type is representative of the Yugoslavian pattern and is a pattern of the

scattered-operation type based mainly on regulation by market mechanism. The third type is representative of the pattern of Hungary. It is a pattern of the centralized power type with the special feature of enforcing scattered operation but under the precondition of maintaining the system of state monopoly in foreign trade. Although all three patterns were outgrowths of the pattern with a traditional high degree of power centralization, all have grown into new patterns, each with its own special features. Besides, each of them has scored various degrees of successes. However, in forming our country's foreign trade pattern, we cannot select any one of them. This is because, after all, all depends on the concrete conditions of a country's economic development and on the objective factors. A pattern of the centralized control type is in reality an improvement on the basic traditional pattern which still employs mandatory planning to manage the microeconomic activities with regulation by market mechanism playing only a supplementary role and the actual effects are not sufficiently ideal. The pattern of the scattered operation type in reality negates the state's economic management functions. Although it has definite effects in augmenting the enterprises' vitality, its application to such a large country as ours, with its complex structure and uneven development, can hardly achieve effective macroeconomic control and is difficult to ensure the unified character of socialist foreign trade. As for the pattern of the centralized-power but scattered-operation type, although it can ensure certain effects in respect of the state's macroeconomic control and the enterprises' microeconomic vitality, it is after all still being continuously developed and perfected and is still unable to solve a series of problems such as the differences in domestic and foreign price levels.

### III.

In order to carry out an important change in our country's original pattern in foreign trade control, it is necessary to start from the concrete conditions in our country. On the one hand, it is important to realize the diverse and flexible character of microeconomic activities and on the other hand to importantly regard the state's planned guidance and macroeconomic control and, on that basis, to put the intermediate role of the regions and departments into full play. The target pattern of our country's foreign trade macroeconomic control should be developed in the direction of unified planning and scattered operation and management under one single department or region. In the changeover from the original to the target pattern, the following three factors should be well grasped: First, we must firmly insist on state monopoly of the country's foreign trade and, under the guidance of the state's overall plan regarding foreign trade, display the regulatory role of market mechanism; second, in macroeconomic control we must perform a good job and microeconomically we must open to the outside world and invigorate the enterprises—that is, the state, simultaneously with strengthening on a large scale the activities

of the enterprises at the grass-roots level, must perform well the job of coordinating and unifying the whole country's foreign trade activities; and, third, we must change the past method of solely employing administrative measures to manage the economy and comprehensively employ economic, legal, and administrative tactics.

From now on, the shift in the pattern of our country's foreign trade macroeconomic control should abide by the following principles: (1) Shift in the foreign trade pattern is necessarily related to problems on various sides such as the national plan, prices, and finance and cannot be unilaterally or singly carried on. Hence, the shift in the foreign trade control pattern must suit the shift in the whole economic control. (2) The objective in the shift of the pattern is still the invigoration of microeconomic activities and the basic point is still the enlargement of the decision-making power of the enterprises at the grass-roots level. We should never allow the state, because of the temporary loss of macroeconomic control, to withdraw the power delegated to the enterprises. (3) Simultaneously with the shift in the controlling layers to the pluralistic structure, not only must we grasp well the conditions and extent of delegating power to the lower levels but we also must, in accordance with the different conditions of different periods, readjust on time the scope of power control of the different layers and enforce the necessary centralization of power and separation of power. (4) In the course of the entire shifting process, we must from beginning to end grasp well the two extremes; that is, centralization and unification at the highest level and opening to the outside and invigoration at the lowest level.

Concretely speaking, regarding the further shifting in the existing foreign trade pattern, we should start with the following:

1. The form and measures of control: For a period in the past, in the process of shifting from a direct to an indirect form of foreign trade macroeconomic control, there appeared the phenomena of a partial or complete loss of macroeconomic control and of loss of coordination. Phenomena of this kind by no means indicated that our country's form of foreign trade control could not be shifted to an indirect one. They only indicated that for a time there was difficulty in breaking away from the structure of direct control and that we were still not accustomed to the structure of indirect control. Therefore, from now on, we should start with bearing in mind such factual conditions of the complex nature of our economic layers and the vastness of the scope of control and must not be too anxious to bring about the shift of the form of control in a short time. Rather, we must still first depend on the system of direct control, gradually establish and perfect a system of indirect control, and realize the shift over from the system of direct control to a system of mainly indirect control to prevent the occurrence in the course of the shifting of the phenomenon of the loss of macroeconomic control. In the

employment of economic and administrative measures, we should not at the moment overemphasize the economic measures, still less wholly give up the administrative measures, but should gradually dwindle the scope of direct control, particularly the scope of control of micro-economic activities. However, in the unification and coordination of the foreign trade of the whole country, it is still necessary to resort to administrative measures. the existing system of import and export permits and the method of directly delegating to lower levels and export quotas are the main causes of the impotence of foreign trade macroeconomic control and must be further improved.

2. Economic levers: Since the shifting of the pattern, the state has separately readjusted the prices, exchange rate, and taxes and has achieved definite results. However, the existing prices, exchange rate, and taxes are still irrational. Twisted prices are still an impediment to our country's establishing a structure of indirect control of foreign trade, not only failing to encourage exports but also playing the role of restricting them. Moreover, they lead to twisting of the exchange rate and cannot effectively control the balancing of imports and exports in foreign trade. At the same time, the formulation of the tax categories on foreign trade lacks rationality and comprehensiveness and the too-heavy tax burden has become one of the important causes of losses and deficits in export trade. Hence, at present, it is urgently needed, under the precondition of doing the utmost to bring about parity or near parity in domestic and foreign prices, to readjust the exchange rate on time, to link the renminbi with several hard currencies, and through readjusting the prices, to rectify the twisted state of the exchange rate. And, with the exchange rate being made capable of regulating the level of exports and imports in foreign trade, we should further rationalize the foreign trade prices. The concrete method of procedure is that we first of all readjust the prices of export commodities that are of secondary importance and can produce relatively small effects. Subsequently, we should follow up with readjusting the prices of the large bulk of commodities, trying the utmost to keep pace with any changes in the domestic price structure. Simultaneously with changing the prices and the exchange rate, we should readjust the irrational tax categories and fix new tax rates.

3. Planning and the financial system: On the export side, we should gradually abolish planning on the variety and output volume of the enterprises' commodities. All we should do is forward to them the plan for creation of foreign exchange earnings from export. The concrete scope of the businesses and the variety of products should be left to the enterprises' own discretion. The state should only, within the scope of issuance of export and import permits and fixing of the quotas, effect coordination within the same category of commodities and fix the highest price limit for purchases and the lowest price limit for exports. On the import side, mandatory planning for the foreign trade companies

should be abolished. The agency system should be instituted and the system of calling for tenders should be resorted to in arranging for major construction projects and import projects from the countries concerned in the agreements or treaties. In matters of finance, foreign trade enterprises must dissociate themselves from the finance department and become economic entities that conduct independent accounting and are solely responsible for their own profits and losses. The foreign trade companies need only deliver to national finance the profits according to the targets designated by the economic and trade departments. After the link between the two parties has been separated, it may also be possible to establish a foreign trade specialist bank that takes unified charge of and coordinates the loans for funds on the part of the foreign trade enterprises and enforces a system for the compensatory use of funds.

4. Operation mechanism: At present the state has difficulties in undertaking the unified management and coordination of the whole country's foreign trade activities. In addition to lacking an authoritative organization and a system that can exercise powerful control, the large number of self-run exports and the serious state of overlapping transactions also constitute the important causes therefore. Hence, it is necessary to break the demarcations and limits of departments and regions, take commodities as the major object, and further enforce specialized operations in industry and trade and in technology and trade. The concrete measure of procedure is to make full utilization of the regions and departments with an originally relatively good foundation, make those enterprises producing the same kind of export commodities collaborate with the foreign trade companies, establish a foreign trade center, unify all the foreign trade transactions, and form a lateral-type export commodities specialized operation structure based on a certain region or department as the center. It is necessary to appropriately centralize the operation power in foreign trade, restore the transfer and allocation relations of large bulks of commodities from the inland provinces and cities to the large ports and harbors, and allow only the various provinces and cities to conduct exports on their own. The localities' commodities of a special nature and those in small varieties should be subjected to renewed regulations and the sphere of operation of the foreign trade specialized companies should be made smaller to avoid non-uniformity in the specifications of the same categories of commodities for export occurring in the event of overlapping transactions.

#### Ways To Make Fujian's Light Industry, Textiles More Export-Oriented

40060061 Fuzhou FUJIAN LUNTAN in Chinese  
No 10, 5 Oct 87 pp 32-34

[Article by the Light Industry Inspection Office of Fujian Province: "Fujian Must Do More to Spur Light Industrial and Textile Exports"]

[Text] With an average annual increase rate of only 2.9 percent, Fujian's light industrial and textile exports grew rather slowly in the Sixth 5-Year Plan. Of the 24 categories of major exports, just 13 posted any gains while 11 actually declined. All newly-developed products registered increases in exports but the exports of traditional old-line products mostly dropped. On the whole, exports account for a very small portion of all light industrial and textile output. The export deliveries of the light industrial and textile sector make up barely 14.1 percent of the entire province's gross output value. Even in the five cities of Fuzhou, Xiamen, Zhangzhou, Quanzhou, and Putian, which manufacture relatively more exports, export deliveries still come to just 16.1 percent of their gross output value. At the moment, these are the primary obstacles to expanding light industrial and textile exports:

1) The existing conditions of production in enterprises are not compatible with the shift toward an export-oriented economy. Most plants in light and textile industries are housed in crude, dilapidated buildings with obsolete equipment and backward technologies. Since their production development is sluggish, they have difficulties upgrading their products and turning out new products. Take the 46 large and medium-sized enterprises in light industry, for instance. According to the 1985 industrial census, 70 percent of them had equipment and machinery rated nationally average or backward. The province has under-invested in light industry and textiles. Few technological transformation projects have been planned in those sectors and there is a scarcity of foreign capital channeled into them. Given their low profit retention rate, light industrial and textile enterprises lack the capacity for self-transformation and self-development. In 1986, the light and textile industries in the province were allowed to retain 332 yuan in profit per worker. In the porcelain industry, which is essentially export-oriented, it was only 134 yuan. Dehua Porcelain Plant, a leading export factory, retained barely 116 yuan per worker.

2) Export prices have not been rationalized, adversely affecting enterprise enthusiasm for expanding export production. Because prices for raw materials have soared in recent years, enterprises have been paying higher production costs, but there has been no corresponding adjustment in the prices of their products. For many categories of exports, it is "raw materials of the 1980's and prices of the 1960's." Profitless production has dampened enterprise enthusiasm for export production. Canned food, for instance, is Fujian's major flagship export. The producer prices of most canned food exports were set in the 1960's. Over the past 2 decades, while raw material prices have changed considerably, some going up several and even a dozen times, and other production expenses have increased sharply along with fluctuations in the exchange rate, product prices have remained unchanged. Not only do canneries fail to turn in a profit, but they are actually losing money. As a result, many valuable raw materials are not used to the full and the

supply sources of exports have also shrunk. Herein lies the reason for the drop in the exports of canned litchi, longan, and other fruits and vegetables in recent years. The temporary price subsidy system now in effect in foreign trade is unfair. Moreover, subsidies frequently are not paid in time, thus forcing the producers to miss the growing season. In yet another manifestation of price irrationality, the procurement prices of many products within Fujian are lower than those in other ports outside the province.

3) There is no guarantee for the availability of raw materials, which has seriously affected export production. Light industry and textiles are processing industries. Without raw materials, "there is nothing the best factory can do." Right now the problem is twofold. For one thing, there is no special guarantee for industrial raw materials used in export production. Planned allocation decreases year after year, making it hard to increase production. Compared to 1984, the supply of galvanized iron required in canning has dropped 23.6 percent this year. Certain special materials cost more when they are used in export production than in domestic production, to the detriment of the export drive. Silver, for example, costs 310 yuan per kilogram as a raw material used in making domestic products, but as much as 810 yuan when used to make exports. Secondly, the production bases of agricultural byproducts and raw materials are currently subject to all manner of interference and disruption and cannot protect themselves. The prices of some agricultural byproducts have shot up. As long as product prices remain unadjusted, enterprises will not be able to absorb this kind of increases and carry out production.

4) The existing export management system has hindered production development. Under the present export management system, the link between production and consumption is severed; production enterprises do not understand the international market or consumer needs and find themselves in a passive position. In product quality, grade, variety, design, packaging, and new product development, enterprises cannot meet the demands of the international market. China, for instance, is a winner in Fujian's porcelain industry. Product quality is good, the industry is well-established, and there are skilled personnel. But export production has failed to take off: the china turned out by Dehua Porcelain Plant still features guanyin in the main. The reason is precisely that the factory has no idea what the market wants and its products fail to keep pace with the times. In yet another sign of the lack of coordination between industry and trade, foreign trade departments do not provide factories with information about the real situation abroad in a timely way, do not release the costs of earning foreign exchange or the selling prices of products overseas, do not make production plans or do so well in advance, do not procure products in time, and transfer onto others storage costs and the costs of the use of funds. This has affected normal enterprise production.

5) Existing preferential policies to encourage exports have not been implemented. Since foreign trade departments do not release the costs of earning foreign exchange or the selling prices of products overseas, production enterprises do not know how much foreign exchange their products earn and must take the word of the foreign trade department at face value. Yet there is often a wide discrepancy between the figure supplied by the foreign trade department and the actual amount of foreign exchange earned by the enterprise. For example, according to the foreign trade department, Xiamen Cannery earned \$16.04 million in foreign exchange in 1986, \$5 million short of the enterprise's estimate of \$21 million.

Policies allowing enterprises to retain foreign exchange and setting up bonus funds have not been put into effect. Because of problems concerning the calculation of the amount of foreign exchange earned, the enterprise does not receive the full amount of foreign exchange it is entitled to under government policy. This is particularly true in the case of foreign exchange earned within and outside the plan. Since the enterprise has little idea how much these figures amount to, they are underpaid to an even greater extent. Nor are payments made in time. Retained foreign exchange and bonus funds for the second half of 1986 had not been received as of last May. Even when the funds are in hand, enterprises have no autonomy over their disposal. To use the funds, they must apply to and obtain permission from layers of authorities. The chain of command is long and part of the funds may be "siphoned off" somewhere along the way.

To make sure that light industrial and textile exports generate \$300 to \$350 million in foreign exchange by the year 1990, which is the plan objective, light industry and textiles must speed up their transition to export orientation. Toward that end, the following measures should be taken:

1) Accelerate technological transformation and technology import to improve the production technology levels of export enterprises. This move is basic to giving light and textile industries an export orientation and expanding exports and foreign exchange earnings. Fujian cannot depend on the existing plants, equipment, and production technology to spur exports in any major way. Instead it must speed up the technological transformation of existing enterprises and the import of technology. In the future, the thrust of technological transformation and import should be projects and investments that produce for the overseas market to earn foreign exchange. Moreover, these projects and investments should be nurtured at the policy level. In distributing technological transformation funds and foreign exchange every year, the province should set aside a certain amount for special export-oriented projects in the light and textile industries and offer them low-interest loans or loans with interest subsidies. When an

enterprise finances the import of technology and equipment with a foreign exchange loan, it should be allowed to use a certain portion of the added foreign exchange to pay off the loan ahead of time. Close attention also must be paid to integrating technological advances with adjusting the product mix in light and textile industries, and creating new exports through technological transformation and import and the development of new product lines. As far as capital construction is concerned, there should be more export-oriented projects in light industry and textiles.

2) Use brand-name high-quality products to spearhead the export drive, form lateral associations, and establish clusters or groups of enterprises. Through the development of lateral associations, we must gradually create a number of clusters or groups of enterprise that are export-oriented, enlarge the scale of light industrial and textile export production, and transform the strength of an individual company into a collective advantage so that coastal developments could spur developments in the mountainous areas, thereby achieving coordinated growth between the two fronts. Based on the optimization plan, we should organize some economic associations where the leadership and ownership systems as well as subordination relations are unchanged, and build clusters or groups of export-oriented enterprises to make canned food, textiles, porcelain, and bicycles. Accordingly, a top priority now should be the formulation of policies pertaining to the establishment of such groups or clusters of export-oriented enterprises armed with the power to import and export.

3) Seriously resolve the availability problems of raw materials needed for export production. This is a prerequisite for assuring export production. Within the framework of the current planning and material supply systems, export production should have priority claims to the limited amounts of industrial raw materials and foreign exchange and their distribution quotas should be increased each year. The prices of raw materials for export production should be the same as those for domestic production. To help export-oriented enterprises pay for imported raw materials, it is suggested that we follow the export preferential arrangements in the electrical machinery industry. Under those arrangements, the enterprise would be allocated a specified sum of foreign exchange as working capital beforehand. After its products are sold abroad in return for foreign exchange, the amount of foreign exchange previously allocated to the enterprise would then be deducted before the distribution of profits is worked out. It is also requested that imported raw materials be exempt from tariffs. Raw material bases should be set up, responsibilities should be clearly defined, contracts should be signed, and risks should be shared. That way we can ensure normal supply channels and establish a long-term policy under which he who sows should also reap and he who invests should also profit. The departments concerned should come to grips with the consideration and

formulation of policies and protective measures relating to the development of raw materials bases to ensure stable sources of raw materials for export production.

4) Rationalize the producer prices of exports. This has now become a top priority. Accordingly we propose that: 1) The prices of export products be put under the centralized management of the Price Bureau. We cannot simply take the word of the foreign trade departments; 2) Review and verify the production costs of export products comprehensively and reappraise producer prices in accordance with the principle of reasonable profits. Should raw materials costs continue to rise within 5 percent after prices are set, the increases would be absorbed by the enterprises themselves. Should the increases exceed 5 percent, producer prices should be adjusted accordingly, depending on the magnitude of the increases; 3) Export prices should be on a par with and even slightly higher than the prices of similar products sold domestically; 4) good-quality products should command higher prices to stimulate enterprise enthusiasm for turning out superior products.

5) Enhance enterprise vitality to make them improve product quality, go upscale, and create new products energetically.

The key to increasing exports and foreign exchange earnings lies with product quality. The strengthening of enterprise management should revolve around quality improvements. Basic management should be stepped up. Enterprises should upgrade their products. The State Council's "Decision on Certain Issues in the Strengthening of Enterprise Management" should be implemented in full. We should zero in on product quality, product upgrading, and product variety. There should be an ongoing effort to develop new products in the light of the needs of the international market. Scientific research should be intensified, key technological research must be successfully carried out, and the application of new technology, materials, processes, and equipment must be broadened and popularized energetically. In addition, we must excel in product design and come up with "light, compact, new superior, and special" products to spearhead the export drive to earn more foreign exchange.

6) Revise the export management system and sort out the industry-trade relations. Before the foreign trade management system is overhauled, the following arrangements and measures should be adopted in order to expand light industrial and textile exports: 1. Set up joint industry and trade companies. To further bring out the strength of industry-trade integration, two more companies—porcelain and light industry (electrical machinery)—should be run as export-oriented economic entities that combine industry with trade while stressing the former, joining the sugar, paper, and salt companies already operated in this manner. It is also proposed that in distributing quotas, issuing export licenses, and carrying out other economic policies, the provincial economic and trade departments should treat industry and

trade companies in the same way as they treat enterprises directly under the foreign trade department. 2. Support enterprises with export power in expanding their exports. When an enterprise is allowed to export on its own, it will develop more enthusiasm for stepping up exports. The most urgent problem now is getting rid of some of the foreign trade department's myriad regulations. Another is excessively cumbersome export examination and approval procedures. 3. Encourage exporting through out-of-province ports. In the past, Fuzhou Pencil Factory consistently exported 400,000 pencils a year. With the support of the foreign trade department, it has been exporting through ports outside Fujian in recent years, in addition to fulfilling the export plan of the provincial foreign trade department. This year it hopes to export over 800,000 pencils and earn more than \$1.5 million in foreign exchange. Its export shipments through ports outside Fujian already exceed those through ports in the province. Thermos, ceramics, and canned food exports too have been shipped through ports outside Fujian. This practice should be encouraged and supported. 4. The divorce between production and demand must be resolved. Information on the international market should be grasped expeditiously. Apart from foreign market information obtained via industry-trade companies, export enterprises should be supported in sending people abroad to study world market conditions and consumer demands.

7) Establish joint ventures vigorously and develop the "three kinds of processing and compensation trade." A crucial way to speed up the change of direction in the light and textile industries is making full use of conditions in the Fujian coast that position it favorably for opening to the outside world, and attracting foreign and overseas Chinese capital assiduously. Already there are 18 Sino-foreign joint and contractual joint ventures in light industry and textiles, most of them export-oriented. Their products are re-exported in part or in whole, which will help generate more foreign exchange. With their more advanced technology, equipment, and management, Sino-foreign joint ventures serve as a model and a trailblazer in the two industries' modernization drive. Even as we strive to ensure the success of existing ventures, we should build another batch of joint ventures and contractual joint ventures to be a vital new force in the export drive, depending on the market conditions of the key exports. This is necessary if we are to speed up the shift toward more upscale products and increase exports. In addition, we should nurture the "three kinds of processing and compensation trade" diligently, broaden export production channels, and earn more foreign exchange.

8) Accelerate the training of qualified personnel, who are critical to the strategic change in the light and textile industries. For major export enterprises along the coast that aim to be export-oriented, getting qualified personnel (including experts in foreign languages and foreign trade) is a serious problem. Training must be intensified urgently. Using all forms of training, Fujian must train a

host of people proficient in foreign economic relations. Key enterprises in localities with the necessary resources should send technical, design, and managerial personnel abroad to come in touch with the international market directly in order to understand it. That is the only way to ensure that the strategic export objective will be realized.

12581

## ECONOMIC ZONES

### Ningbo's Progress as One of 14 Coastal Cities

40060035 Beijing LIAOWANG OVERSEAS EDITION  
in Chinese No 43, 26 Oct 87 pp 13-14

[Article by Wu Keqiang [0702 0344 1730]: "Ningbo's Progress 3 Years After Being Designated One of the 14 Coastal Cities"]

[Text] Profound changes and noticeable achievements have been made in the 3 years since Ningbo, located in the southeast corner of the Chang Jiang delta, was designated a coastal city.

#### I. Continued Improvement of the Investment Environment

To create a more conducive environment for foreign investments, Ningbo concentrated manpower, materials and finances to outfit and build basic urban facilities to make its urban functions more complete.

Ningbo Harbor has grown from the former riverbank port to a channel port. Piers were added and 40 large-, medium-, and small-scale 500-ton and up berths have been completed to date, including seven with 10,000-ton and up capacities, the largest being 100,000 tons. A 220,000-ton floating petroleum transfer barge platform built in Belium Harbor has become a new and important port for China's crude oil exports. Known worldwide a century ago as one of Chin's "five trading ports," Ningbo Harbor truly has opened its doors now and 130,000 ton oceangoing ships can enter and exist freely. Harbor functions have grown from simple passenger and freight piers to a multifunction port capable of loading and unloading coal, lumber, petroleum, minerals, containers, and other materials. In 1986, the volume of freight handled by Ningbo Harbor was 17.9 million tons, up 72.1 percent from 1985. The total design handling capacity of the harbor is 36,83 million tons, making it China's seventh largest port.

Communications also have improved. Formerly, Ningbo City was served only by ocean and land shipping. Air routes opened to Shanghai, Hangzhou and Beijing have ended its historical lack of regular air service. A second-class international airport in the suburbs, Liske Airport, has been approved by the State Council. Construction is moving quickly now, and it should be finished and opened in 1988. Land and sea communications also are developing. Passenger train and ferry runs between

Ningbo and Shanghai on the Ningbo-Shanghai lines have been added. The Beliun Harbor Railroad also has been completed and opened to traffic. A highway to link the city with the development zone is almost finished.

Continual improvements also have been made in water and power supplies, communication, services, and so on. The Tingxia reservoir completed recently added 150 million tons to Ningbo's water supply. After the new coal-fired generator at the Zhenhai Power Plant goes on line, the power supply capacity will increase by 200,000 kW. The 14,000 gate program-controlled telephone equipment imported from Sweden was connected in July 1986 and can be linked directly with ten countries and regions, including the United States, England, Italy, France, the Federal Republic of Germany, Japan, and Hong Kong, opening a new era of computer program control in posts and telecommunications. Ningbo's original living and service facilities were rather backward and sparse, and incapable of meeting foreign investment needs. Capital construction in this area is being speeded up and several modern high-rise buildings for tourism, finance, commerce, S&T, and other purposes are springing up. Examples include the Asia Huayuan Hotel, Jinlong Restaurant, the Ningbo International Building, and Ningbo People's Bank and Industry and Commerce Bank Office Buildings, an International Seamen's Club, a Friendship Store, the Zhuangyuan Building, and others. Some are finished and some are under construction.

Since groundbreaking in March 1985 to build the Economic and Technological Development Zone on the southeast side of the mouth of the Yong Jiang in northeastern Ningbo, infrastructure projects for water, electricity and gas supplies, posts, connection with upper and lower water channels, and highway leveling have been basically completed. Projects worth a total of 106 million yuan have been finished and 48,000m<sup>2</sup> of standard plant buildings, warehouses, and dormitories have been built. The area developed first now can meet the needs of construction and startup of various industrial projects, and four plants are in operation there.

#### II. Preliminary Formation of an Export-Oriented Economic Structure

Ningbo has firmly implemented state principles concerning accelerating the pace of opening to the outside world. It has combined better urban infrastructure construction with several preferential policies to encourage foreign investments, and it has guaranteed the legal interests of foreign investors.

After the State Council issued its "Stipulations Concerning Encouragement of Foreign Investment" in October 1986, Ningbo City integrated with local conditions to formulate measures for better service to foreign investment. It established a joint conference system for economic management departments concerned with foreign affairs and set up item-responsibility management, a

system of individual responsibility, and project examination and approval within 20 days. It opened a Chinese investment fund for the "three kinds of wholly or partly foreign-owned enterprises" to aid in solving problems on the Chinese side in registration funds, project funds, and circulating funds. A method of comprehensive balance was adopted for foreign exchange to reduce contradictions of insufficient foreign exchange in certain jointly-owned and jointly-managed enterprises. It established a materials supply company for foreign investment enterprises to solve problems with raw materials, equipment supplies, and other things in Chinese-foreign joint ventures. Definite preference was given to product exporting enterprises and advanced technology enterprises in collection of site development fees, land use fees, and taxes. Moreover, with approval by the State Council, it was stipulated that foreign businessmen investing in construction of enterprises within the Beliun Harbor Industrial Zone could receive preferential treatment like similar enterprises in the economic development zone. This means that the area of preferential treatment for foreign businessmen who invest in enterprises in Ningbo was no longer restricted to the 3.9 km<sup>2</sup> development zone, but was instead expanded to include an area of 60 km<sup>2</sup>.

When the flowers are fragrant, the butterflies will come, and many foreign investors have flocked to Ningbo. Nearly 2,000 businessmen from over 40 countries and regions have come to Ningbo to discuss economic trade and investment activities. Agreements have been signed on 36 foreign investment enterprises with total foreign investments of 470 million yuan. Foreign capital totaling \$68 million has been utilized. Ten enterprises have gone into operation and are earning foreign exchange. New trends like more foreign investment utilization, a higher proportion of productive projects and large industrial projects, and so on have appeared in the joint investment project agreements. The seven new joint investment projects signed and approved from January to May 1987, for example, involve a total of \$44.65 million in foreign capital, more than five times all foreign investments used in 1985 and 1986 combined. Productive projects account for 96.4 percent of this amount, and four projects involve investments of 10 million to 100 million yuan Renminbi. Economic results are rather good in all of the enterprises which have gone into operation, and most are showing a profit. Some have begun to achieve product resales and are earning more foreign exchange. An example is the Changcheng Precision Tool Co., Ltd., a trilateral joint investment venture by the Yuyao FHrged Tool Plant, the Ningbo Branch of thV bank of China and Cultural Seiko Co., Ltd. of Japan. Its products are being sold in more than 20 provinces, municipalities, and autonomous regions throughout China and foreign investment departments in Shanghai, Beijing, Zhejiang, and other regions are serving as purchasing agents for export. The plant already has made more than 1 million yuan in profits.

Ningbo city has also made obvious progress in foreign economic and investment work. Ningbo Vice Mayor Chen Zheliang [7115 0772 5328] stated in a recent

public lecture that total purchases of Ningbo's export commodities reached 680 million yuan in 1986 and that 82 percent of export commodity procurement plans for 1987 were completed from January through July. A net increase of 150 million yuan in value of purchases in 1987 compared with 1986 is expected. The situations in foreign economic cooperation and foreign labor service cooperation also are very good. During the first half of 1987, Ningbo signed new labor service cooperation projects to provide clothing technical services and to send master chefs, service personnel, welding technicians, and so on. Two additional labor provision contracts are being honored. Ningbo City had 129 labor service personnel in foreign countries at the end of June 1987 and the contracts had earned \$1.1 million.

### III. Comprehensive Socioeconomic Development

Ningbo City has not just absorbed a large amount of foreign capital by opening its doors. It also has obtained a large amount of foreign economic information, advanced technologies and equipment, managerial experience, and other things vital to a developing economy which have brought new life to comprehensive socioeconomic development.

According to statistics from relevant departments, Ningbo imported 184 advanced technologies from foreign countries in the past 3 years and 101 of them have been put into use. Several old enterprises have been transformed by technical imports. They have made obvious improvements in product quality, ability to develop new products, and enterprise management standards, and they are displaying their talents in many good-quality products. An example is the formerly obscure Ningbo No 5 Radio Plant, which imported both advanced equipment and advanced management methods. It quickly became an influential specialized magnetic head producing plant, and three of the five types of magnetic heads it makes have attained first-class state magnetic head standards. They are selling well within China and also have entered the Hong Kong international market. Statistics on 96 technical import projects indicate that the additional value of output in one year may reach 247 million yuan, and that they may provide an additional 48 million yuan in taxes and more than \$16 million in foreign exchange earnings. Imports of advanced foreign technologies, equipment, and advanced managerial experience have made obvious improvements in the quality of all enterprises in Ningbo and promoted sustained development of the national economy. The gross value of social Hputput in Ningbo city during 1986 was 18.75 billion yuan, up 15.7 percent from 1985.

Greater opening to the outside world will lead to an obvious rise in Ningbo's economic status in China and abroad. The state now considers Ningbo to be one of the primary industrial cities and trade ports in east China, and the economic heart of Zhejiang. It is a focal investment region in China's Seventh 5-Year Plan. The State

Council has approved Ningbo's comprehensive city plan. Ningbo's function as a central transfer harbor for international containers has been confirmed. This is particularly true of the State Council's approval for Ningbo City to become a city with province-level economic decision-making authority, which has given the city even greater powers.

State Council member Gu Mu [6253 3668] emphasized not long ago at the fifth meeting of the State Council's Ningbo Economic Development coordination Group in Ningbo that Ningbo City will open its doors further and mobilize people from Ningbo living in foreign countries to participate in building their home town.

#### Photo Captions

1. p 13. The Sino-Japanese Joint Venture Changcheng Precision Tool co., Ltd. Building in Ningbo.

2. p 14. The Ningbo Silk Embroidered Clothing Joint Venture Plant produces silk clothing for export.

12539/9738

## AGRICULTURE

### Water, Electric Power Minister on Water Conservancy

40060045 Beijing ZHONGGUO SHUILI [CHINA WATER CONSERVANCY] in Chinese  
No 10, 15 Oct 87 pp 7-10

[Article by Qian Zhengying: "Speech to the Forum on Rural Water Conservancy (Draft)"]

#### [Text] A. Estimate of Rural Water Conservancy at Present

To put it succinctly, rural water conservancy has begun to take a turn for the better. Water conservancy work was given a strong push in June of last year at the forum on rural water conservancy held by the Rural Policy Institute of the Central Committee Secretariat and the Ministry of Water Resources and Electric Power (MWREP), and presided over by Vice Premier Tian Jiyun. In keeping with Premier Zhao Ziyang's instructions ("Water conservancy is essential, but our methods must be changed," and "Strengthen administration and management, and be concerned with economic results"), the forum analyzed the two crises facing water conservancy work: the aging, lack of upkeep, and declining effectiveness of the works, and the scarcity of water resources in the north. A decision was made to rally our forces and restore enthusiasm by adopting measures such as strengthening leadership, establishing a system for infrastructure-building through labor, increasing inputs, conserving on water use, completing a grass-roots water

conservation management services system, and reinforcing uniform management of water resources. The spirit of this forum was implemented everywhere; a great deal of work was done, and varying degrees of progress have been made.

Last winter and this spring, 2 billion man-days of accumulated labor completed 3 billion cubic meters of earth and stone work, improving, restoring, and increasing 54 million mu of irrigated land; 19 million mu of land was newly added or was improved by the elimination of waterlogging; water and soil erosion was brought under control over more than 7,800 km; potable water was provided for 5.78 million people. This was the most successful year since the Sixth 5-Year Plan. According to statistics for the end of 1986, more than 13 million mu of new irrigated area was added throughout the country; subtracting the land area occupied by construction or abandoned, there was a net reduction of 930,000 mu. In 12 provinces and autonomous regions—Liaoning, Jilin, Heilongjiang, Jiangsu, Henan, Xinjiang, Shaanxi, Jiangxi, Qinghai, Ningxia, Hunan, Yunnan—the irrigated area either increased or stayed the same. Under the direct leadership of the State Council, this year's flood-prevention work achieved major successes; there was significant progress in unblocking river channels and management of water conservancy was greatly strengthened. More important, after years of practical efforts in flood control and drought prevention, many areas were able to summarize their positive and negative experiences and gain a new understanding of the impact of water conservancy on agriculture. This is one important indication of the turn for the better in water conservancy work.

However, the two crises facing water conservancy have not been eliminated, and the situation is not yet a hopeful one. The principal problems are:

1. The irrigated land area continues to decline in 17 of the country's provinces, autonomous regions, and municipalities. Despite those provinces and regions where the irrigated area is beginning to show a net increase or no decline, if funds cannot be found for the renewal and upgrading of works, and if the water and land occupied by various capital construction projects cannot be compensated for, it will not be easy to reach the original development goals set for the Seventh 5-Year Plan.
2. The shortage of water resources in the north continues to worsen; it is especially severe in Shanxi, Beijing, Hebei, and some areas of Henan and Shandong. In many areas of the country providing potable water for humans and livestock is still extremely problematic and has a severe impact on the people's production, livelihood and health.
3. The scale of rural water conservancy construction is still quite small. In some provinces last winter and this spring, each village provided only one or two work days

of labor accumulation; investment in water conservancy continues to decline in some provinces. In short, the problems of inadequate funds and scarce supplies are severe.

4. Poor water conservancy management is still very apparent in flood control and drought prevention; many works and installations are still being damaged and are not achieving the results they should. For example, the legal system needs to be further strengthened and management improved in the areas of unblocking river channels and conserving water.

#### B. Water Conservancy Essential to Increase Reserve Strength in Agriculture

The Central Committee and the State Council have repeatedly told us that both intensified reform and increased income are necessary to solve China's agricultural problems. In particular, if we are to achieve a stable increase in grain production and reach plateaus of 900 billion jin by 1990 and 1 trillion jin by the end of the century, agricultural inputs must be increased. Many areas are calling for increased agricultural inputs in fertilizer, water conservancy, and seed. Science and technology require the application of these three material factors in order to be able to play their full role.

Since China's grain production reached 800 billion jin in 1984, it has fluctuated over the last three years. Many areas, further integrating their negative and positive experiences, have recognized that, given China's current situation, water conservancy efforts are essential to increase reserve strength in agriculture. Under China's natural and social conditions, striving to bring drought and flooding under control is a key requisite for developing agriculture. Water conservancy is necessary not only for China's traditional agriculture but also for building modern agriculture.

In recent years the agricultural economy has developed quickly in the economically developed regions of Shanghai and southern Jiangsu. They have learned from experience that solving the water conservancy problem is the only way to achieve stable agricultural development. Only when agriculture is stable can the economy thrive. Today they are still planning to find better solutions to the water conservancy problem. Guangdong has also learned this. The Xuzhou, Huaiyin, and Lianshui regions of northern Jiangsu have gone from being severe disaster areas before Liberation to being commodity grain bases, and this is due primarily to improvements in water conservancy. Henan and Shandong on the lower Huanghe have achieved tremendous success in diverting the river's waters for irrigation. In 1986 there was severe drought along the middle reaches of the Changjiang, but Hubei Province's strong water conservancy installations made it possible for total grain output to reach record highs. Over the last 10 years production has been high and stable in the Xinjiang Uygur Autonomous Region; not only has grain self-sufficiency been achieved, but

more than 1.3 billion jin was shipped out to other provinces. This was achieved mainly by developing water conservancy and increasing the area under cultivation.

In many areas around the country, however, poor water conservancy conditions have caused sudden fluctuations in grain production. This contrast can be seen clearly from one province, autonomous region, and municipality to another.

Practical experience in flood control in recent years also illustrates the benefits of water conservancy installations in preventing floods and avoiding disasters. When the Liaohe River flooded in 1985, the Canwo reservoir reduced the flood-peak flow on the Taizihe River by 56 percent, while the Dahuofang reservoir reduced the flood peak on the Hunhe River by 65 percent; with prompt intervention to unblock the river channel, losses were reduced by 1.2 billion yuan. In July of this year there was a major flood on the upper Hanjiang, with a flow of 22,500 cubic meters per second entering the Danjiangkou reservoir; by releasing 7,140 cubic meters per second from the reservoir, the flood peak was reduced by 68 percent. This ensured safety and made it possible to avoid using the Dujiatai flood-diversion area. The Huaihe flooded five times this year, but it was possible to avoid flooding the flood area; keeping the river channel clear played an important part in this.

In short, China's limited land area and huge population meant that agricultural development in the past was dependent on water conservancy; the amount of land under cultivation may decline in the future, and population may continue to increase. If we are to resolve this conflict and increase reserve strength in agriculture, we must continue to rely on water conservancy. In terms of water conservancy work itself, we should earnestly assimilate the lessons of the past and continue with reform. Our experience in the last few years shows that if we proceed strictly according to natural law and economic principles, conscientiously do our planning, and really strengthen management, we shall be able to reap great social as well as economic benefits, and this will also be an important factor in improving the ecological environment.

#### C. How Water Conservancy Serves to Increase Agricultural Reserve Strength

In order to increase reserve strength in agriculture, water conservancy must achieve four things: 1) ensuring flood prevention and safety on major rivers to prevent large-scale disasters; 2) rural water conservancy should center on transforming medium- and low-yield fields and on improving economic returns in high-yield areas, with consolidation, transformation, and suitable development; 3) water conservancy works should be able to be self-sustaining, in a benign cycle; 4) protecting water resources, preserving soil and water, and improving the ecological environment.

Nationwide, our near-term work should focus on the following:

1. Transformation of low-yield fields. This involves especially low-yield fields subject to flooding in the south, and saline and alkaline waterlogged land in the north. This is an important aspect of rural water conservancy; it requires limited inputs and labor, with a sharp increase in yields per mu after transformation. Some 50 million mu of low-yield fields subject to flooding have now been transformed around the country, and 50 million mu more remain to be transformed, primarily along the banks of rivers and lakes, on the lower reaches of rivers, and on scoured ridges in hilly regions. Experience in Jiangsu, Zhejiang, and Hubei shows that an input of about 100 yuan per mu makes it possible to get two harvests instead of one. Some 70 million mu of saline and alkaline land has now been transformed, with 40 million mu remaining, distributed primarily over the plain bounded by the Huanghe, the Huaihe, and the Huanghai Sea, over the northeast, and over the inland waterways of the northwest. After transformation, the yield per mu can be increased by about 200 jin, and the cost can be recovered in four or five years. The country has 360 million mu of land susceptible to waterlogging; standards must be raised on the 280 million mu that have already been brought under control, and 80 million mu remain to be brought under control, primarily on the Songliao Plain, the Sanjiang Plain, eastern Henan, north of the Huaihe, and along southern lakes and rivers. The measures taken to transform these low-yield fields consist primarily of proper drainage facilities, appropriate development of irrigation, and the corresponding control of medium and small rivers.

2. Transformation of hillside fields. This is a soil and water conservation measure as well as a measure to increase yields in dry farming. The country has a total of about 500 million mu of cultivated hillsides, and since Liberation more than 100 million mu has been turned into terraced fields. It is now possible and necessary to turn another approximately 200 million mu into terraced fields.

3. Water-saving transformation of irrigated areas. This is the primary measure for exploiting potential in irrigated areas. It saves water, land, and energy and can expand irrigation and increase yields. Water-saving transformation consists essentially of seepage prevention in irrigation ditches, development of piped irrigation in the fields, with sprayer and sprinkler irrigation where conditions allow, and renewal and upgrading of electromechanical pumping. In northern areas where water resources are scarce, water-saving irrigation is a great strategic measure.

4. Expansion of irrigated area. If China is to achieve 800 jin of grain per capita, it will require 1.2 billion mu of grain fields producing more than 1 trillion jin of grain, with an average yield per mu of 900 jin. To this end, the irrigated area must be further expanded, and basic fields

with high and stable yields must be developed. Given China's land and water resources, it is possible to irrigate an additional 200 million mu. We believe that the decline in irrigated area must be halted during the Seventh 5-Year Plan and we must strive for a net increase of 20 million mu; during the Eighth 5-Year Plan, there must be a net increase of 40 million mu. The principal measure will be transformation to exploit potential, and some new engineering works will be required in areas with a weak base.

5. Elimination of reservoir dangers and unblocking of river channels. According to statistics, reinforcing 89 of the country's large, dangerous reservoirs and eliminating their risk would make it possible to add 6.5 billion cubic meters in capacity to irrigation reservoirs and 3.8 billion cubic meters to flood-prevention reservoirs and would require an investment of only 1.8 billion yuan, which would be far more cost-effective than building new reservoirs. Every effort should be made to complete this reinforcement on 43 critically dangerous reservoirs during the Seventh 5-Year Plan. Each locale should focus on dealing with the small and medium-size dangerous reservoirs. As for the unblocking of river channels, we should continue to implement the spirit of the State Council's circular, consolidating and developing the results of this work. Flood-prevention work should now be regularized and standardized.

6. Development of water conservancy for land reclamation. The country has 160 million mu of land suitable for reclamation; the concerned departments are planning to reclaim 20 million mu by 1995, primarily in the northeast and northwest. Reclamation requires that the water conservancy problem be solved first. Along the southern coast, the shoreline can also be developed.

7. Providing potable water for humans and livestock. After many years of struggle, the country has now solved the drinking-water problems of more than 90 million people, but there are still more than 60 million waiting to be helped. It had been planned that this problem would basically be solved during the Seventh 5-Year Plan, and completely finished off during the Eighth, but we will have to struggle to achieve this. As living standards rise, drinking-water standards will have to be raised.

8. Construction of the necessary key water resources, flood prevention, and drainage projects. In the face of Beijing's crisis in water resources, and at the same time as water in general is being conserved, we must appropriate develop resources and institute projects aimed at adjusting water supplies from one drainage area to another. This involves such projects as the diversion of the Huanghe into Baiyangdian Lake, Phase I of the eastern diversion of the Changjiang, etc. We should strive to carry these out during the Seventh 5-Year Plan. At the same time, we should focus on the preparatory

work for other water adjustment projects. Key flood-prevention works should be carried out on a planned basis for large rivers, along with construction of flood diversion and detention areas.

9. Development of small-scale hydroelectric stations and aquaculture. The country already has 10 million kw in small hydroelectric installations generating more than 24 billion kwh annually. More than 800 counties rely primarily on small-scale hydroelectric stations for their power. This plays an important role in solving and easing power-supply problems in rural areas. The country has 70 million kw in developable, small-scale hydroelectric station reserves, which represents great potential. According to preliminary plans, we will strive to raise installed capacity to 12.5 million kw with annual generation of 35 billion kwh. Utilization of the waters in reservoirs and behind dams for raising fish is a product which the MWREP should develop. Reservoirs cover an area of 30 million mu in China; there is still 10 million mu that is not being properly utilized, and the area that is being utilized also has great potential to be exploited. Departments concerned with water conservancy at all levels must strengthen their leadership and provide support in the pertinent areas.

10. Improved management and gradual mechanization of water-conservancy construction. The existing large, medium, and small water conservancy works and installations are rural China's greatest fixed assets and an important component part of the agricultural productive forces; we must continue to implement the "two pillars and one key" and, through further reform, establish a management system for rural water conservancy works so that they can not only be self-sustaining but also constantly improve economic benefits and serve rural economic development. Economically developed areas should promote the mechanization of water conservancy construction.

#### D. Measures to Be Taken

To achieve the above goals, the following measures must be taken:

1. Focus conscientiously on planning and preparatory work. In keeping with the call for "comprehensive service, innovation and change," comprehensive planning, thorough preparation, and rational utilization of water resources are prerequisites for the healthy development of rural water conservancy. In recent years close attention has been paid to macroeconomic research into developing water conservancy, and medium- and long-term plans for developing water conservancy and developmental plans for particular projects have been proposed. In accordance with the spirit of this forum, they call for mustering our forces, earnestly studying and formulating or revising the water conservancy plans of each province, region, or municipality to increase reserve strength in agriculture, and including those plans

in our overall plans. The plans for the last three years of the Seventh 5-Year Plan should then be revised accordingly and all preparatory work completed.

2. Insist on the accumulation of labor for infrastructure-building. At last year's forum on rural water conservancy it was decided that each member of the rural labor force should commit 10 to 20 work days to rural water conservancy projects. We propose that water conservancy labor accumulation regulations be promulgated, in the manner of Beijing and Guangdong, stipulating the extent to which such labor may be used, reasonable workloads, management methods, inspection, a system of rewards and punishments, etc., and that a handbook of labor accumulation be compiled so as to form a complete system in which such labor is used systematically and effectively.

3. Increase input into water conservancy. If we are to perform the ten tasks described above, it is essential to increase capital input. We propose that input be increased in the following several areas, and that a "water conservancy development fund" be established to strengthen supervision and management: 1) In accordance with the requirements of the Central Committee, investment in water conservancy should be restored as quickly as possible to the levels of the 1980 financial contracts, with management strengthened and funds used for the purposes for which they are allocated. 2) The Central Committee and the State Council have decided that during the Seventh 5-Year Plan 1 billion yuan will be taken out of the profits turned over each year by town and township enterprises to be used in developing grain production; each area should give further study to using some of this to increase input into water conservancy in the light of its own conditions. 3) Consideration should be given to using the arable land occupancy tax which the state began collecting this year to compensate for the occupancy of irrigated land. 4) Using medium- and low-grade industrial goods to provide work as a form of relief and to support the development of transport and water conservancy in depressed areas. 5) Taking out an appropriate portion of local financial reserves each year to be used to improve agricultural infrastructure. 6) Interest-bearing agricultural loans. For those water conservancy projects offering outstanding returns, rapid results, and the capacity to repay, agricultural water fees could be lent out with interest as agricultural loans, to be repaid and relent. 7) Support for individually operated water conservancy works and capital-raising for water conservancy.

The lack of sources of funding for renewal and transformation of existing water conservancy installations and for preparatory expenses has a negative impact on the consolidation and improvement of existing works and on future development. We now intend to include these two cost categories in capital construction plans; the preparatory expenses for rural water conservancy

projects will then come out of the farmland water conservancy assistance funds. Planning and finance departments at all levels are asked to support this.

4. Continue instituting the management responsibility system and establish a complete, grass-roots service and management system. At last year's forum on rural water conservancy, it was decided to establish a complete district and township water conservancy management organization, with an effort made to basically complete this task this year and next. The management contract responsibility system should be further strengthened for all types of water conservancy works in order to eliminate capricious or nonexistent management.

At the same time, political and ideological work and technical training should be reinforced, in order to constantly improve the quality of water conservancy personnel so that they will be up to the arduous task of developing water conservancy.

5. Continue focusing on reform of water fees and comprehensive water conservancy operations. The water fee procedure promulgated by the State Council has been in force more than two years now, and it has been extremely important for establishing a benign cycle of water conservancy projects and for conserving water. The governments of Shandong, Zhejiang, Heilongjiang, Fujian, Hunan, Guangdong, Yunnan, and Tianjin have already issued implementing procedures. We hope that other provinces, regions, and municipalities will soon follow suit.

With support from all quarters, comprehensive water conservancy operations have developed significantly in recent years. In 1986 the output value of these operations reached 800 million yuan, with profits of about 80 million yuan. To support the development of comprehensive water conservancy operations, the state gave three years of tax exemptions to comprehensive water conservancy operations conducted by management units under the system of ownership by the whole people; this period will expire next year. At last year's forum it was decided that this could be extended for several years more; it is hoped that the pertinent departments will issue a circular soon.

6. Early preparation and early action so that this winter's and next spring's water conservancy construction can be soundly completed. We are calling for deployment of rural water conservancy construction and preparatory work at the grass-roots level to be completed before October, about a month earlier than last year. We hope that this winter's and next spring's construction will be somewhat larger in scale and yield better results. Preparatory work for flood control should also begin this winter rather than waiting for next year's flood season emergencies. The channel clearing work that was not completed this year must be continued and completed. The various problems that cropped up in this year's

flood-control work should be dealt with conscientiously. In short, flood control and drought prevention are year-round tasks that must be dealt with systematically.

13322

**Problems, Solutions for Rural Financial Markets**  
*40060037 Beijing NONGYE JINGJI WENTI in Chinese No 9, 23 Sep 87 pp 39-43*

[Article by Xu Hao [1776 3185] and Wang Qingshan [3769 7230 1472], Research Department, Agricultural Bank of China: "China's Rural Financial Markets: Current Situation and Strategy"]

[Text] A. The Problems Posed

1. The purpose of reforming China's financial system is to establish a system that has strong macrocontrols and active microeconomic management, and that operates smoothly. This means gradually improving the central bank's macrocontrols while forming a pool of commercial-type financial enterprises. In rural areas, experiences in running the original financial institutions as enterprises and the new, commercial-type financial institutions that have appeared have placed objective demands on lending and on banking resources; this is demonstrated by the fact that movements of funds have broken through the restrictions of horizontal and vertical compartmentalization, and market-regulating mechanisms have gradually been introduced. At the same time, it has forced banking services to become more diversified, from hidden, small-scale borrowing to the public encouragement of large-scale, free circulation of funds, to the formation of financial markets. These represent major breakthroughs in financial theory and practice.

2. From their inception to their maturity, rural financial markets require certain internal conditions and external environment. These include: 1) Forming a pool of commercial-type financial enterprises, ensuring that the Agricultural Bank operates as an enterprise in its entirety and at each level; independent operation of collective financial enterprises; the ubiquitous presence of regional and private banks. 2) Giving operational decision-making power to rural agricultural, industrial, and commercial enterprise entities, so that they have investment policy-making authority and share risks equally. 3) Completion of the entire financial system's organizational structure and regulating mechanisms, and rational financial behavior. Rational behavior includes that by individual financial institutions and that by finance as a whole. 4) Use of capital funds by all of society largely regulated by the market and in accordance with the general laws of operation of a commodity economy. 5) With indirect finance dominating, rapid development of direct finance and rapid standardization.

3. The development of rural financial markets must be carried out in synchronization with improvements in internal and external conditions. Overall, it is possible to

carry out together the creation of a pool of commercial-type financial institutions and the completion of financial markets within the rural financial system. Locally, rural financial markets may take the lead in reform, as in the acceptance, discounting, and transfer of bills.

4. With many factors restricting it, it will be difficult to achieve any breakthroughs in the near future in reform of the rural financial system. It will likewise be difficult for individual rural financial institutions to achieve meaningful enterprise-style management in the near future. Therefore, in examining rural financial markets we must begin by summarizing the current situation and proposing specific, near-term measures, rather than by describing rural financial markets under complete, mature conditions. The principle behind proposing near-term measures is to be able to enrich and stimulate rural financial markets under existing conditions and to be able to promote by means of these financial markets true enterprise-style operation for rural financial institutions and reform of the entire financial system.

#### B. Summary Analysis of the Actual Situation

5. The rural financial markets currently offer: interbank lending; bill acceptance and discounting; issue, discounting, and limited transfers of bonds. Interbank lending began in 1985 and has now spread across the entire country. The bills and bonds market came into being somewhat later but is now also achieving some magnitude. By November 1986, for example, the agricultural banks in Shanghai and Shenyang had handled a total of 315 bill discounting transactions involving 45.48 million yuan, and accepted 10 bills for enterprises, involving 1.97 million yuan. In August 1986, the Shenyang Trust and Investment Co. began offering bond transfers, and by November, after just three months, it had handled nine different bond issues by six different enterprises, buying a total of 10,304 bonds worth 452,000 yuan, selling 10,062 bonds worth 431,000 yuan, and writing 1,379 mortgages worth 55,000 yuan.

6. While affirming the positive effect of the rural financial markets, we must also acknowledge the many imbalances in those markets. 1) Distortions in the price of money. Ordinarily, the market price of money—i.e., the interest rate—should be determined according to the term of the loan, the return, degree of risk, etc., but in reality some financial institutions often “sell low” and “buy high,” without regard to the return. 2) Closed dealings. The movement of funds in the financial markets should be free-flowing and unrestricted, with funds going to those projects offering good returns; in reality, however, “trading” in funds is largely artificially restricted to “adjustments within the system,” leading to straight “point-to-point” movements of funds. 3) Overemphasis on planning guidance. The managing institutions are responsible for buying and selling, and the administrative institutions put the funds to use; the phenomenon of the upper echelons borrowing and lending while the lower echelons apply the funds is very

widespread. 4) In the absence of standardization, the issue, discounting, and transfer of bills and securities will be difficult to popularize in the near term. 5) The absence of specialized institutions enjoying legal status, such as stock exchanges. 6) Large outflows of funds from poor regions, affecting the implementation of state policies in those regions.

7. The main factors affecting normal operation of the rural financial markets are: 1) Direct government interference in the economy. The “investment fever” of government departments, brought on by their need to meet economic targets, means that local rural financial institutions are forced to lay out large amounts of capital, even to the extent of contravening normal operating principles, buying high and selling low. Furthermore, rural financial markets are dependent on government aid for their sites, staff, and expenses, which means that some of these financial markets have become direct appendages of local government. 2) Excessive administrative interference within the financial system. Grassroots institutions are unable to operate independently and are restricted in their use of funds by higher management organs. The actual operating units bear no risk whatsoever, so that funds circulate at low efficiency. 3) The body of laws and regulations for financial markets is incomplete. 4) Few bills and bonds are issued; in particular, the commercial credit and public capital-raising which appeared early on have not led to the standardization of bills and securities.

8. Conditions are not ripe for the completion of rural financial markets. To some extent, however, the foundations of financial markets are now in place: 1) Short-term surpluses and shortfalls in the use of funds by rural financial institutions at all levels. 2) Expansion of rural commercial credit and gradual shift to commercial bills. 3) The presence of rural nongovernmental credit over a long period of time. 4) The appearance of other rural financial institutions, including all types of for-profit and not-for-profit financial institutions. 5) Rapid development of direct rural capital formation, primarily in the form of raising capital to operate industrial and commercial enterprises. 6) The rural areas have a certain amount of state bonds and financial bonds. 7) Diversification of banking tools and modernization of technology and equipment.

Thus, starting from the actual situation and on the basis of a systematic analysis, it is possible to find a near-term breakthrough in rural financial markets and to propose the corresponding measures to be taken.

#### III. Description of Near-Term Goals

9. Establishment of rural financial market centers. Forming rural financial market trading centers radiating outward from central cities in economically developed and relatively developed regions. Both direct circulation of capital and the transfer of negotiable securities require a legal exchange and intermediaries, providing buyers and

sellers with opportunities for direct trade and selection; bank trust departments now perform the functions of securities exchanges, but this can only be a temporary, transitional measure. After creation of a specialized structure in the central bank for managing financial markets, consideration should be given to quickly setting up a securities exchange doing its own independent accounting for the rural financial markets.

10. After interbank lending has gotten underway, the focus of rural financial markets should be shifted towards the acceptance, discounting, and transfer of bills. The bills market can be freed from interference by the government and other departments, and the irrational behavior of individual financial institutions can be rectified.

11. In order to establish complete, long-term money markets, a stock market that pools funds for subscribers must first be formed; only after this can a circulating market in which stocks can be exchanged for cash at any time be formed. Therefore, we must concentrate on completing the stock and bond market and progressively developing a negotiable securities market. Particularly noteworthy is the fact that there is already a considerable amount of public capital formation in rural areas; in the near term, stock and bond activity here must be standardized. In addition, the markets for state bonds and financial bonds should be opened up at the same time.

12. Management of rural financial markets occurs at two levels. First, the series of laws and regulations promulgated by the government or by the central bank in order to exert macrocontrol and prevent speculation, such as the financial markets management law, the securities law, etc. Second, the relevant rules, regulations, and norms formulated by the organizers of rural financial markets in order to ensure normal trading in funds and preserve their own interests.

13. Once rural financial markets have been formed, two important criteria must be met. 1) Unchanneled circulation of large amounts of funds. Market regulation must cast off the restraints of planned distribution of funds; in keeping with the demands of the laws of economics, funds should be flexibly directed towards high-yield projects, thereby leading to a realignment of production factors. 2) Except for the central bank, other key players in the financial markets have as their goal the pursuit of their own maximum benefits; the profit motive necessarily carries with it competition and speculative behavior in financial markets, as well as fluctuations in the "price" of money.

#### D. Special Measures for Near-Term Goals

14. Areas where trade is concentrated, with good transport facilities and developed financial institutions, such as Shanghai, Shenyang, Wuhan, and Guangzhou, are rapidly turning into regional or interregional funds trading centers, and the corresponding financial market

management institutions are being developed. The conditions ensuring this are: fixed sites for the markets; quality management personnel and the necessary technology and equipment; a clearly defined leading business entity; "exchanges" as independent legal entities which, aside from being subject to legitimate management by the central bank, are not dependent on any department; the range of services offered by the financial markets not being limited by region, type of ownership, or industry.

#### 15. Rural lending markets:

1) This refers primarily to trading in funds among institutions at various levels within the financial organization; specifically, the participants include: the central bank, the various institutions of the Agricultural Bank practicing independent accounting, credit cooperatives (or cooperative associations), and other financial institutions. Industrial and commercial enterprise entities with long-term surpluses of funds could also trade freely in the financial market.

2) In accordance with the demands of national economic development and policy, the principal applications and maximum terms for borrowed funds should be set for a certain period of time. During this period, these borrowed funds should be used primarily to deal with temporary problems of turnover in the circulation of funds or with seasonal demands for funds; loans would be primarily short-term, and the proportion of long-term loans would be restricted.

3) In order to prevent excessive speculation and any negative impact on normal economic development in some regions, particularly poor regions where returns on the use of capital are rather low, limits should be set on the amount that can be borrowed and lent by financial institutions; these limits can be set as a percentage of deposits or the institutions' own funds.

4) Conditions ensuring the normal operation of lending markets are: complete and stringent procedures for examination and approval, supervision, guarantee, and punishment; "trading centers" responsible for furnishing the relevant data and information to participants; specialized financial institutions experiencing temporary problems with funds turnover after issuing short-term loans may take a loan bill to the local people's bank or higher institution and request a mortgage loan; participants making prior application, publicly announcing their services, and noting their specific requirements for terms and interest rates; the price of the loan—i.e., the interest rate—to be negotiated by both parties according to the length of its term, with interest rates changing according to market conditions; allowing industrial and commercial enterprises making use of these loans to "buy" funds directly on the market, with, however, the consent of the bank holding their account and with that bank handling the transaction.

#### 16. Bill acceptance and discounting market:

- 1) This refers primarily to the acceptance and discounting of commercial paper and to the discounting of bills accepted by banks. When both drawee and payee are located in the same locale and are found to meet the criteria, both types of instruments may be discounted; whenever the drawee is located elsewhere, only bank-accepted bills may be discounted. The Agricultural Bank may handle bill acceptance and discounting for its clients, and it may also accept and discount bills for enterprises acting as industrial and commercial banks.
- 2) Enterprises making use of bills must be legal economic entities with bank accounts. At present, the range of bill acceptance and discounting covers primarily the following: temporarily idle overstocked goods, settlement of overdue loans, commercial wholesale goods, goods allocated according to plan between wholesale and retail, goods allocated early, and sales of seasonal commodities.
- 3) Application should be made by the enterprise to the bank for the use of bills; the bank's credit, planning, and accounting departments jointly examine the application and process those meeting the various criteria according to established procedure. Examination by the bank should include whether the amount the enterprise seeks to discount corresponds to actual need; the use to which the discounted funds are put; the enterprise's production and management, etc.
- 4) The focus of the bills market should be on rapidly restructuring the commercial credit already issued and on ensuring that newly issued commercial credit paper is standardized.
- 5) The conditions ensuring the acceptance and discounting of bills are as follows: bills must be signed and issued on the basis of a purchase contract and legal commodity trade; rapid formation of a market for the circulation and transfer of bills based on the acceptance, discounting, and rediscounting of bills; the handling of rediscounting operations by all levels of the central bank; a deliberate cutback in the percentage of credit loans issued, and an increase in discounting and mortgage loans; reform of the settlement system would favor the acceptance of bills elsewhere; setting reasonable discount and rediscount rates; issuing regulations for the control of bills, etc.

#### 17. Negotiable securities and their trading markets:

- 1) The securities market refers primarily to the market in which stocks, state bonds, financial bonds, and enterprise bonds are issued and transferred. Stock issues must be standardized and used primarily for newly established enterprises. Financial bonds are used primarily for technological upgrading or limited equipment investments; consideration may be given to issuing bonds especially for use as circulating funds.

- 2) The securities market, dominated by a "trading company," may consist of two parts: First, the company itself buys and sells stocks and bonds or mortgage discounts, or sells on commission. Trading in stocks and bonds involves buying and selling; prices are to be posted daily and float freely. Mortgage discounting refers to a bearer in urgent need of funds obtaining cash through a mortgage discount, the term of the mortgage being negotiated by the two parties; if the mortgage is not redeemed at the end of that term, the "company" may sell it to another according to regulations; if it is redeemed on time, the "company" collects a service charge based on a certain percentage of the bond's face value. Sale on commission means that the bearer takes the bond and proof of his status to the "company" and requests it to sell the bond according to the bearer's own requirements; after it is sold, the "company" takes a percentage as commission. Second, the "company" provides a site for the trading, and bonds are sold by direct negotiations between the parties who freely conclude their deal; when the deal is closed, the "company" is responsible for certifying the validity of the securities and collects a certification fee.
- 3) Stock issues are used primarily for various types of rural public capital-raising. Stocks are sold primarily to government, enterprises, institutions, and individuals. The quantities of stocks issued, their scope, maturity time, and uses are to be examined and approved by the local bank holding the account, or approved by the "company" and issued through it. State and financial bonds are likewise to be issued publicly, with no restrictions as to the quantities purchased or by whom they are purchased. The procedure for issuing stocks and bonds is: preparation, application, evaluation, public sale, control, discounting, transfer, acceptance at maturity, etc.

- 4) Conditions for ensuring the securities market are: the enterprises, companies, government bodies and financial institutions issuing stocks and bonds must have some prepayment, and the securities must be allowed to circulate freely; completion of a rural insurance system; the existence of credit appraisal institutions providing timely, reliable information to the public; a new understanding of securities by the public (it may be that people will rush to buy bonds rather than stocks out of fear of the risk involved, but they should not avoid the stocks of companies with good results); market participants should be given greater leeway in determining the price of securities; discounting and rediscounting by the specialized banks and the central bank; promulgation of rules and regulations for the management of stocks and bonds, etc.

**1987 Bumper Grain Harvest Analyzed**  
40060039a Beijing NONGMIN RIBAO in Chinese  
28 Oct 87 p 1, 2

[Article by the State Council's Rural Development Research Center Survey Group: "This Year's Bumper Harvest Experience in Jilin"]

[Text] In the latter part of September we went to Jilin to study and survey the circumstances behind the increased grain harvest in that province. At that time the autumn grain crops had already ripened and the harvest had begun. We took part in a symposium convened by the provincial party committee and the provincial government for municipal, prefectural, and county party secretaries and county magistrates from the main grain-producing districts. We surveyed Huaide, Yushu, Nongan, and other high-yield counties, as well as Hunjiang City, which has achieved remarkable results in developing mulched corn. Everywhere we went, people were jubilant. They were happy because this year's overall corn, rice, and soybean harvests may break historic records. However, how to purchase, dry, store, and transport the increased harvest are also pressing problems.

I. Through sample surveys, meteorological analyses, and bottom-to-top statistical studies, the various departments concerned in Jilin have arrived at relatively identical conclusions concerning Jilin's overall grain output. They predict that this year the harvest may increase by around 2.5 billion kg over 1986, and it will exceed the historic high set in 1984. Throughout Jilin per capita grain holdings have reached more than 700 kg, and each person in the countryside supplies over 600 kg of commodity grain. Jilin is capable of transferring over 5 billion kg of grain to the state or to other provinces, which is more than any other province can do. There are three counties in which gross output measures 1.5 billion kg (Yushu, Huaide, and Fuyu), three in which it measures 1 billion kg (Lishu, Dehui, and Nongan), and another 10 in which it measures 500 million kg. The combined grain output from these 16 counties may exceed 13 billion jin.

**A.**

There has been a significant increase in agricultural inputs.

In 1987 total funds for agricultural inputs amounted to 1.56 billion yuan, up 7.2 percent over 1986. Chemical fertilizer usage reached 2.75 million tons, an increase of 300,000 tons over 1986. Jilin used an average of 45 kg of chemical fertilizer per mu, and the main grain-producing counties used 75 kg per mu. Peasant families also increased fertilizer application rates, generally by about 1 cubic meters per mu. Many people were also talking about how much night soil was produced by counties and cities, and this kind of talk has rarely been heard in recent years.

**B.**

New science and technology has been promoted.

Improved high-yield varieties have been adopted on a large scale, including Jidan 118, Tiedan 4, Danyu 13, and other improved high-yield corn varieties, and per-mu yields may increase by about one-tenth. Jilin has adopted fertilizer application based on land measurements and fertilizer formulas, and has increased the proportion of phosphatic fertilizer. It has also applied small amounts of potassic fertilizer and trace elements and has increased fertilizer efficiency. Jilin has enthusiastically promoted mulching for corn crops. The mulched corn growing area in Hunjiang City in the Changbai mountain district has reached 150,000 mu, or one-third of the total. Because mulching conserves warmth, fertilizer, and water, the per-mu yield has increased 150 to 200 kg or even more. As for paddy cultivation techniques, we have obtained outstanding results by adopting large canopies for raising rice seedlings, machinery for rice transplanting, and chemicals for weeding. We have also used artificial sprinkling. Baicheng Prefecture generally experiences a spring drought on 10 million mu of land, but this year the prefecture used artificial sprinkling twice, and this contributed greatly toward prompt sprouting and seedling protection. We also made new progress by soaking corn seeds to hasten sprouting.

**C.**

Grain growing area has been increased.

Total grain and legume land in Jilin has risen by 1.14 million mu, or 2.2 percent, over 1986. Of those crops, the growing area for high-yield crops like corn and rice has expanded 4 million mu, or 10 percent.

**D.**

Behind these direct factors lie improvements in capable leadership at the provincial, municipal, prefectural, and county levels, and in peasant enthusiasm for farming. Our most important experience has been that the Jilin Party Committee and the provincial government have made grain production development the primary task of rural work, and have adopted effective measures to achieve this. In 1987 Jilin allocated 11 million dollars in foreign exchange for ammonium diphosphate fertilizer. In order to stabilize the selling price for chemical fertilizer, since 1986 Jilin has provided over 10 million yuan in public subsidies. Some areas have also put a land compensation system into effect and promoted the use of night soil, thus having a positive effect on soil amelioration.

Because the state took suitable measures to raise the price of corn, (the price of corn under procurement quotas was raised 4 fen per kg, and the price of corn under negotiated procurement was raised 8 fen per kg).

the spread of these applicable techniques has lowered costs further and augmented the effect produced. Anticipated earnings from grain cultivation have risen once again, and peasants have become more enthusiastic about growing grain, particularly corn and rice.

Grain production in Jilin is still inadequate in some respects. For example, benefits are low in some counties, and the problem of "high yields and poor counties" still exists. Supplies of fertilizer, mulch and other materials are insufficient to meet demand, prices rise quite often, and various regions are developing at an uneven pace. These matters all merit our concern.

The fact of growth in Jilin's grain output demonstrates that if only we make reasonable adjustments in grain prices and increase the supply of production materials in a timely fashion, we can continue to increase grain output. This lays the foundation for carrying out effective annual adjustments. From a long-term perspective, even though China is short of arable land, there are bright prospects for developing and applying new techniques and there is great potential for improving unit yields. Taking mulching as an example, certain Jilin counties and cities doubled inputs to adopt corn mulching, but their outputs may double or triple. Not only is the rate of increase higher for output than for input, but mulching also safeguards against natural disasters and helps to stabilize output. Consequently, natural resource restrictions are not insurmountable, and we certainly must not be pessimistic about the grain question.

II. Jilin is a fairly typical grain-producing province, with great potential. From the perspective of natural conditions, Jilin lies between 41 and 46 degrees north latitude, in the central portion of the Songnen-Liaohe Plain. Rainfall is generous and the soil is fertile. We have a good foundation for raising yields and we have experience in doing so. Jilin's disadvantage is that it has relatively few frost-free days, which makes it suitable for monocropping corn, soybeans, rice, sorghum, and other grain. The most advantageous factors here are that arable land is fairly plentiful, the scale of operations is considerable, peasant families in the west-central portion generally contract 20 to 30 mu apiece, and mechanized cultivation is practiced over a large area. Jilin also has bright prospects for developing rural industry and industrial employment. This will help to expand the scale of farming operations further and to maintain fairly low production costs. The Jilin provincial party committee and the provincial government, as well as the various municipal, prefectural, and county leaders have studied and analyzed current production levels and scientific and technological conditions, and tentatively feel that within the next 5 to 6 years or slightly more, it is possible for us to increase grain output by another 200 to 300 million kg. Thus, we will be able to supply roughly 7.5 billion kg of commodity grain to the state and become a decisive commodity grain base. This is extremely significant for resolving China's grain problem. We suggest

that the state should give this effort priority support and increase certain matching funds. In particular, the state should intensify reforms and reorder circulation mechanisms.

From the perspective of production measures, the most important thing is to increase the use of chemical fertilizers, particularly compound fertilizers. The effects of implementing the household production responsibility system in the past few years have been the same in Jilin as in the nation at large, but because Jilin has simultaneously increased inputs, our fertilizer application rate in 1987 is 1.8 million tons greater than in 1978, and our grain output has risen 7 billion kg. This is a breakthrough. If we are to raise grain production to a still higher level, in the next period we must rely on continued increases in chemical fertilizer and night-soil applications. Second, we must develop mulched corn. If we can expand to 10 million mu of mulched corn area, we may raise output by 1.5 to 2 billion kg. Further, constantly renewing improved varieties, developing paddy irrigation works, and expanding our grain-growing area may have the effect of increasing output.

As for prices, we must both ensure that commodity grain base cereals are highly competitive and unlikely to rise too high in price, and we must make sure that grain-farming peasants on commodity grain bases make a decent income—generally no less than that of cash-crop growers. Only in this way can we preserve enthusiasm for grain cultivation. Our major problem right now is that we have not yet established a stable buying and selling system or a stable price for grain produced outside the contract procurement system. Thus, grain transferred out of or into Jilin is all sold at fleeting market prices. This situation must be resolved by intensifying reforms in the grain farming and circulation systems. As the price of production materials rises, we should make suitable adjustments in grain procurement prices and see to it that expenditures on grain cultivation costs are subsidized. We can also expand reproduction. We must gradually establish a market circulation system and a reasonable income distribution system to ensure that the natural resource advantages of grain-producing provinces are transformed into economic advantages. This way we can arouse enthusiasm for grain cultivation in all quarters.

III. Jilin's experience with increasing grain yields reflects changing trends in grain production: First, if we are to continue to have great potential for increased yields, we must increase monetary, material, and technological investments and improve our level of production. Second, if our level of commoditization is to improve, we must further resolve circulation problems. If we are to raise grain production to a new level, we must adapt to these two changing trends and institute a whole series of coordinated reforms. One category will be the coordination of pre-production services, including basic agricultural facilities and agricultural science and technology reserves. Without this coordination we will be unable to

produce much grain. Another category will be the coordination of post-production services, including drying, storage, and shipping facilities, and grain processing and conversion industries. Even more important will be the intensification of reforms in the grain circulation system. Without this coordination, even if we produce the grain, we will be unable to convert it into a commodity. In 1985 grain fluctuations appeared, and one major reason for this was that we had not kept pace in coordinating services. From a national perspective, nearly half of the 100-billion-kg increase in grain output achieved over almost 8 years was assimilated by peasants for expenditures to support themselves. The remainder was offered as commodity grain. By the end of the century there will be another 100-billion-kg increase in grain output, and, aside from what will go for grain rations and expenditures to support peasants in the increased population, more of the remainder may be converted into commodity grain. At the same time, as the consumption level rises, more and more grain may be converted for indirect consumption. Ideologically, we must be adequately prepared for this.

12510

#### **Breakthrough Reported in Rice Chloroplast DNA Research**

40060039b Hangzhou ZHEJIANG RIBAO in Chinese  
17 Oct 87 p 1

[Article by Song Jianxun [1345 1696 8113]: "Researchers at Hangzhou University's Department of Biology Have Spent Four Years Studying DNA in Rice Chloroplasts, and Have Made a Major Breakthrough—The First Complete Gene Library for Rice Chloroplast DNA and the Detailed Physical Atlas of Six Types of Restriction Enzymes Occupy a Leading International Position"]

[Text] A major breakthrough has been made in chloroplast DNA research, which is currently a "hot topic" in international molecular biological research. After 4 years of research, scientists at Hangzhou University's Department of Biology have compiled the first complete gene library for rice chloroplast DNA, as well as a detailed physical atlas of 6 types of restriction enzymes. This has moved them into the forefront of world research on this topic.

The study of chloroplast DNA is not just a basic theoretical topic in agricultural production. It is now also a research component in the relevant branches of botanical genetic engineering, molecular biology, and biochemistry. As far as research in genetic engineering is concerned, the study of chloroplast DNA may lead to purposeful transformation in the appearance of agricultural crops, which would have far-reaching theoretical and strategic significance. And in international academic circles, the compilation of a chloroplast DNA gene library and physical atlas has been fixed upon as the essential, fundamental theoretical task involved in this important research. Professor Tang Su [0781 1953] and

Associate Professor Shen Guilao [3088 2710 0525], of the Department of Biology at Hangzhou University, took over this important research in 1982. Zhao Yan [6392 5888], a young teacher in this task group, used a new experimental method of separating and purifying chloroplast DNA in rice, and as a result, within a fairly short time the group was able to compile the first complete gene library of rice chloroplast DNA, as well as a detailed physical atlas of 6 types of restriction enzymes. Because it is more difficult to separate and purify chloroplast DNA from rice than from other plants, very little of this kind research has been reported from abroad. Although Japan and the United States have made gains in the study of rice chloroplast DNA, neither of them has a complete gene library of rice chloroplast DNA or a physical atlas of restriction enzymes having multiple contact points.

12510

#### **Correlation Between Rice Resistance, Rice Blast Strains**

40110008a Beijing ZHIWU BAOHU [PLANT PROTECTION] in Chinese No 5, 8 Oct 87 pp 2-5

[Article by Feng Daigui [7458 0108 6311], Peng Guoliang [1756 0948 0081], Luo Qingming [5012 1987 2494], and Yang Qun [2799 5028]: "Correlation Between Changes in Biological Strains of Rice Blast and Loss of Paddy Rice Varieties' Resistance to Blast"]

[Abstract] Rice blast [Pyricularia oryzae] is the most serious disease of paddy rice in China where it caused a loss of more than 350 million kgs of rice paddy during 1984. Despite the planting of hybrid rice varieties resistant to blast, changes in the fungus that causes blast permit the blast to make headway against the resistant rice varieties. The G group that had been the dominant strain from 1979 through 1982 was displaced by the B group after 1983. This article details experiments to correlate changes in biological strains of rice blast to loss of paddy rice resistance to blast.

Numerous biological strains of rice blast spores were used on numerous paddy rice varieties, and the results are summarized in three tables in the article. Advice to plant protection personnel on methods to keep ahead of the rice blast is also given.

9432

#### **Tests of Resistance of Rice Varieties to Common Diseases**

40110006 Beijing ZHIWU BAOHU [PLANT PROTECTION] in Chinese No 4, 8 Aug 87 pp 4-6]

[Article by Shen Ying [3088 3841], Qiu Dewen [6726 1795 2429], Huang Shiwen [7806 0013 2429], Ma Jufa [7456 1565 3127], and Yuan Xiaoping

[5913 4607 5493], Chinese Paddy Rice Institute: "Rice Blast Resistance Spectrum of Some of China's Paddy Rice Varieties Tested"]

[Abstract] In 1987, 16 different physiological forms of rice blast [Pericularia oryzae] fungi were used in field tests to determine the resistance of various strains of Japonica and Indica rice from different parts of China to rice blast. In addition, the natural incidence of bacterial leaf blight (*Xanthomonas oryzae*), and sheath and culm blight (*Hypochnus sasakii*) during the seedling stage were noted. The degree of resistance of 26 test varieties and four control varieties are presented in two tables that summarize conclusions reached from the experiment.

In the discussion that concludes the article, ways are considered for applying the findings of the experiment to rice production in the field where the resistance of a rice variety usually fades after it is grown in the same area for 2 or 3 years in a row, necessitating a search for new resistant varieties.

9432

**Aluminum Phosphide Eradicates Wheat Pests**  
40110008b Beijing ZHIWU BAOHU [PLANT PROTECTION] in Chinese No 5, 8 Oct 87 pp 52

[Article by Wu Qinghai [0702 3237 3189] and Li Yang [2621 7122], Nanyang Prefecture Plant Protection Company, Henan Province; and Zhang Zhenzhong [1728 2182 0022], Nanyang Agricultural School, Henan Province]

[Abstract] Small tablets of aluminum phosphide placed in stored grain have virtually eliminated stored grain losses to insect pests. This article reports the minimum effective dosage for grain stored under various conditions and the results obtained in eradicating pests during controlled experiments, as well as the economic benefits derived. As a result of the experiments, it was concluded that aluminum phosphide tablets virtually eradicate pests in wheat without residues or contamination, that the chemical is safe and easy to use, requires little investment, and produces major benefits. It is recommended for use not only with grain, but for stored nuts, edible fungi, and medicinal herbs as well.

9432

**Diagnosis, Treatment of Porcine Epidemic Diarrhea**  
40110007 Beijing ZHONGGUO SHOUYI ZAZHI [CHINESE JOURNAL OF VETERINARY MEDICINE] in Chinese No 7, 22 Jul 87 pp 46-48

[Article by Wu Shuxian [0702 4311 7359], Shanghai Animal and Plant Quarantine Institute: "Porcine Epidemic Diarrhea"]

[Abstract] The outbreak of porcine epidemic diarrhea [PED] that afflicted the hog population in many countries of Europe, the United States, Japan, and China throughout the 1970's and on into the 1980's displayed the classic symptoms of typical gastroenteritis (TGE), but was clinically, pathologically, and epidemiologically different from TGE.

This article, which reports findings on the pathology of PED and the PED virus, clinical symptoms, the pathogenic mechanism, pathological changes, diagnostic techniques, treatment and prevention of PED, and conclusions acknowledges a debt to western European researchers, notably P. Deborka, who used enzyme linked immunosorbent assay (ELISA) and immunofluorescence examination to distinguish between TGE and PED viruses. The article explains Chinese use of these same techniques on both viruses imported from elsewhere and those obtained from stricken hogs in Shanghai. It concludes that both PED and TGE viruses are coronary virus infections distinguishable only through the use of immunological methods; that mixed infections from PED and TGE may occur without producing cross immunity; that PED is spread by hog feces, and that humans and animals play a role in its spread; that medical treatment has little effect on the course of the disease, the best treatment being withdrawal of food from the hogs while supplying them with plenty of water, and keeping stys warm and dry; and that prevention of contagion lies in strict control over the movements of personnel, animals and vehicles carrying hogs.

9432

**Plans For Calf Embryo Transplants**  
40110004 Tianjin ZHONGGUO XUMU ZAZHI [CHINESE JOURNAL OF ANIMAL SCIENCE] in Chinese No 2, 4 Apr 87 pp 16-7, 30

[Article by Dong Wei [5516 0251], Beijing College of Agriculture: "Cursory Discussion of Problems in the Application of Calf Embryo Transplant Techniques in China"]

[Abstract] Despite a late start in the field of calf embryo transplants (the results of experiments begun in the mid-1970's having been applied only slightly to production by the mid-1980's), and despite numerous handicaps (including lack of expertise, lack of equipment, lack of trained personnel, and poor quality of herds), China has decided to use calf embryo transplants, in conjunction with artificial insemination, to improve meat and milk production from its native oxen. Though artificial insemination will play the main role in improving herds, embryo transplants are also intended. Hybrids will play a key role. An estimated 3 to 4 million of the country's more than 20 million oxen are deemed suitable for embryo transplants. Widespread acceptance of the technique will depend on improving the currently low success rate with transplants. The goal is the attainment by 1990 of an average of between four and six calves per donor animal in a fertilization and normal development rate that is better than 80 percent, with pregnancy resulting from fresh embryos between 50 and 60 percent of the time, and from frozen embryos more than 80 percent of the time. The survival rate for transplants should be between 40 and 50 percent.

The article outlines steps to be taken and the problems to be overcome in the attainment of this goal.

9432

**Correlation Between Insecticide Dosage, Mosquito Deaths**

40110003 Beijing KUNCHONG ZHISHI  
*[ENTOMOLOGICAL KNOWLEDGE] in Chinese*  
No 4, Jul 87 pp 234-236

[Article by Wu Neng [0702 5174], Guangxi Institute For the Prevention and Control of Parasitic Diseases: "Biological Measurement of the Correlation Between Insecticide Dosage and Reaction Time"]

[Abstract] This article outlines the effects of various dosages of 14 different commonly used insecticides on three different kinds of mosquito larvae and adults of various ages, providing a mathematical correlation between dosage and reaction time. Three tables convey with clarity the results of the tests, most of the text being devoted to the logarithms used to produce the tables.

9432

**Missile Destroyer Completes Major Retrofit**  
*40050078 Beijing JIANCHUAN ZHISHI (NAVAL AND MERCHANT SHIPS) in Chinese No 8, Aug 87 p 7*

[Excerpts] On 24 May 1987, Ship 105 of the PLA Navy's North Sea Fleet successfully completed its first trial voyage in the Bohai Wan after having undergone a major refit operation. This ship is the first guided missile destroyer designed and built by China. It has safely sailed more than 50,000 nautical miles since being launched in the early 1970s. The Navy began a major refit of Ship 105 in 1982 to speed up naval modernization and increase our naval combat strength. In the past 4 years more than 40 items were replaced or added; missiles, an ASW electronic command system, and radio communications equipment were upgraded; new equipment includes systems for reconnaissance and carrying antisubmarine aircraft, a satellite navigation system, and a system for resupply at sea. This new equipment gives the ship improved attack and defense capability against submarines and ships, as well as improved survivability and capability for blue water navigation. The equipment for carrying an aircraft has an especially important and well-defined role for ASW and beyond-visual-range missile assaults, and is the first such system within China.

**Type-69 Twin 30mm Naval Gun Specifications**  
*40050079 Beijing BINGQI ZHISHI (ORDNANCE KNOWLEDGE) in Chinese No 5, 15 Sep 87 p 9*

[Excerpts] The Type-69 twin 30mm naval gun is completely automatic and is sealed to function in NBC environments. It will operate in a temperature range of -40 degrees to +50 degrees Centigrade, relative humidity of 95 percent, and a force-5 sea state. Its main specifications are as follows:

Caliber: 30mm  
Elevation: -12 degrees to +87 degrees  
Traverse: 176.5 degrees left or right  
Maximum speed (elevation): 50 degrees/second  
Maximum slewing speed: 70 degrees/second  
Maximum acceleration (elevation): 100 degrees/sec x sec  
Maximum acceleration (slew): 100 degrees/sec x sec  
Minimum speed (elevation): 0.5 degrees/second  
Minimum speed (slew): 0.5 degrees/second  
Total weight: 1800kg

**Conference on Nuclear Strategy**  
*40050077 Beijing JIEFANGJUN BAO in Chinese 21 Nov 87 p 1*

[Text] Wuhan, 20 November: "China's research in nuclear strategic theory has achieved major breakthroughs in development and has initially formed a theoretical system with Chinese characteristics." This news was conveyed from China's first conference on nuclear strategic theory which concluded today.

In recent years, following the development of China's nuclear strength, our nuclear strategic theory has begun to make progress in terms of depth, compass, and systematization. There were especially important breakthroughs relating to the status and role of China's nuclear strength in the international nuclear strategic picture, and the development of our nuclear strength and its relation to our international status, economic construction, and geographic conditions.

**Strategic Rocket Force Improves Launch Capability**

*40050077 Beijing JIEFANGJUN BAO in Chinese 20 Nov 87 p 1*

[Article by Gu Boliang [7357 0130 5328]]

[Text] A certain unit of the Strategic Rocket Force has upheld cadre training as the primary aspect of military training and has gradually formed a body of backbone technical cadres which is well-qualified, complete, and well-organized. This has improved the capability of launch fendui to independently carry out launch missions and has insured the completion of training and war-preparedness missions. In mid-November this unit completed an evaluation exercise involving a number of launch fendui, receiving praise from an inspection group of the General Staff.

In the past year the leaders of this unit employed vigorous measures, starting with the strengthening of cadre training, to effectively improve the capability of launch fendui to independently carry out launch missions.

- They conducted collective training classes for specialized cadres. In recent years they have successively held classes for cadres specialized in control and mobilization, and effectively improved their actual operations and ability to analyze and eliminate problems.
- They strengthened training in multiple operations with the cadre as the primary subject. During the mid-November exercise, the launch fendui completed a simulated combat launch mission on schedule with a 45 percent reduction in personnel.
- They organized evaluation exercises incorporating tactical scenarios. The launch fendui and responsive support fendui conducted simultaneous training, changing the past situation where the two groups found it difficult to cooperate.
- They have actively developed research activities in military science. This unit held a symposium in August of this year which critiqued and selected 36 outstanding theses. The cadres have broaden their field of vision through this development of academic research activities.

**New Training Management in Strategic Rocket Force**

40050077 Beijing JIEFANGJUN BAO in Chinese  
21 Nov 87 p 2

[Text] The Second Artillery Corps [China Strategic Rocket Force] has established in one of its subordinate units a four-level management system for planning training, so that annual, segmented, and monthly training can be planned by the units and passed on to the brigades (or regiments), and from brigade (regiment) to battalion and from battalion to company. The company level and below specifies the entire training progress chart and its scope, thus increasing planning and foresight in training work and promoting its implementation.

**2d Artillery Brigade Improves Training Conditions**

40050077 Beijing JIEFANGJUN BAO in Chinese  
20 Oct 87 p 2

[Article by Chen Haijun [7115 3189 6511]]

[Text] A certain brigade of the Second Artillery Corps [China Strategic Rocket Force] has strived to improve training regularization in the missile force. As of early September they had already compiled and written 1.22 million characters of operational regulations for various launch procedures of a certain type of missile, established two training centers, one for training with actual equipment and another for simplified equipment [danzhuang 0830 5944], created more than 100 trays of study cards for basic, specialized, and operational subjects, started a backbone cadre class for training in the positioning system, and insured that the training materials, sites, and backbone cadre ranks are complete.

**Rocket Force Benefits From Technology Exchanges**

40050077 Beijing JIEFANGJUN BAO in Chinese  
21 Nov 87 p 1

[Article by Chen Dechun [7115 1795 2504]]

[Excerpts] A certain research institute of the Second Artillery Corps [China Strategic Rocket Force] has broken out of its sealed conditions and expanded its technological exchanges with the outside, achieving startling results.

This institute is primarily responsible for developing the Second Artillery Corps' automated command system. It has sent people to the United States, England, Japan, France, Australia, Hong Kong, and nine other locations to study, observe, and receive training. At the same time, more than several million dollars of advanced equipment was imported. On the basis of broadly studying, saving for reference, and absorbing foreign advanced technology, the entire institute over the past 8 years has completed 396 scientific projects of which 72 were awarded advanced scientific prizes from the nation and military. The ZD microcomputer system it developed

has presently become an important domestic product; it proposed the "Views on Improving the V56" which was listed as a worldwide research topic for 1988-1992 at the Geneva Electronics Conference held this past September.

After more than 7 years of concentrated effort and repeated trials, this institute finally presented 3 types of Chinese character dot matrix and alphabetic standards for information exchange, the first such set within China. Countries such as Japan, the United States, and the Federal Republic of Germany applied for tech transfers after this result was reported, earning a great deal of foreign exchange for China. Thirty-four year old engineer Wang Weiyi [3769 4850 3015] has worked for several years on a programmed telephone exchange which has filled a domestic need.

**First Batch of Soldiers Airlifted to Lhasa**

40050077 Beijing JIEFANGJUN BAO in Chinese  
19 Nov 87 p 1

[Excerpts] Chengdu, 17 November: More than 2,000 new recruits in the Xizang Military District today traveled in 17 large passenger planes from Chengdu to Lhasa. At 1230 hours, Chengdu Military Region Deputy Commander Liao Xilong gave the order to board at the Shuangliu Airport, and 145 recruits boarded a Boeing 707 numbered "2416." At 1454 the plane safely landed at Gongga Airport, elevation 3,450 meters.

Chengdu MR Logistics Department Director Wang Shilin also came to Tibet today. Specialists from the Academy of Military Science and the Military Medical Research Institute of the General Logistics Department accompanied the recruits to Tibet to observe and help efforts to combat high altitude sickness for the PLA.

**Henan MD Establishes Complete Reserve Bases**

40050077 Beijing JIEFANGJUN BAO in Chinese  
9 Nov 87 p 1

[Excerpts] As of late September, initial steps were taken by the Henan Military District to establish a complete system of reserve bases to be used by reserve specialists and technicians, including artillery, communications, armor, engineer, chemical defense, and reconnaissance troops, in conjunction with the needs of group army combined arms building. Each base is a "soldier depot" which combines training, recruitment, storage, and mobilization into one entity.

These bases are the result of Henan MD leaders and organizations focusing on the needs of peacetime war-preparedness, making critical studies, and daring to reform. They greatly improved the percentage of soldiers being correctly matched to tasks for which they are suited. Reservists trained at the bases consistently met or exceeded the standards of first-year recruits trained with regular units.

**New Naval Artillery Fire Control System**

40050077 Beijing JIEFANGJUN BAO in Chinese  
6 Nov 87 p 1

[Text] Beijing, 5 November: A certain improved micro-computer-controlled automatic naval artillery system passed design inspection and approval today in Beijing. This improved weapon system is a primary armament on the Navy's main combatants. It is able to detect and track targets in all visibility conditions, and within maximum effective firing range can control the automatic laying of the gun to fire against enemy ships, aircraft, and fixed coastal targets.

**Xinjiang MD Artillery Brigade**

40050077 Beijing JIEFANGJUN BAO in Chinese  
10 Nov 87 p 2

[Excerpt] A certain Xinjiang Military District artillery brigade conducted training in mobility, combat, survival, camping, and camouflage in the torrid heat of the Gurbantunggut Shamo.

**Shenyang MR Constructs New Barracks**

40050077 Beijing JIEFANGJUN BAO in Chinese  
15 Nov 87 p 1

[Excerpts] Shenyang, 14 November: The Shenyang Military Region today completed construction of 200 barracks facilities for elements at the battalion level and below. Cadres and soldiers from about 70 battalions left

their temporary housing and moved into the new apartment-style quarters. These buildings were the first constructed by the Shenyang MR in compliance with General Department directives to improve military living conditions over the next 5 to 7 years by building new living quarters for battalions and below.

**Group Army Tank Brigade Meets With Chengdu Students**

40050077 Beijing JIEFANGJUN BAO in Chinese  
15 Nov 87 p 1

[Article by Wan Yang [8001 7122] and Guan Chunlin [7070 2504 2651]]

[Excerpts] On 25 October, officers and soldiers of a certain group army tank brigade met with 30 student representatives of Chengdu Normal Training School to discuss Comrade Zhao Ziyang's report at the 13th Party Congress.

**Artillery Brigade on Yunnan Border**

40050077 Beijing JIEFANGJUN BAO in Chinese  
27 Oct 87 p 2

[Excerpts] A certain artillery brigade on the Yunnan border has had many combat achievements in the self-defense counterattack against Vietnam. Over the past year they have diligently summarized operational experiences and used these as a basis for developing training reforms, further improving their quick reaction capability and achieving impressive results.

## NORTHEAST REGION

### Harbin Shifts Party Elements to Local Administration

40050058 Harbin HEILONGJIANG RIBAO in Chinese  
7 Nov 87 p 1

[Article by staff reporter Zhou Jinbao [6650 6855 1405]: "Party Organizations in Six Districts Put Under Local Administration"]

[Text] As of the end of October, in 6 of the 7 districts in Harbin City the party organizations of enterprise units have in the main been put under local administration.

According to statistics, in the city's 652 enterprise units there are 602 party branches and 6,087 party members that have been separated from their former administrative system. They are now being administered by the district or subdistrict party committee where they are located. The party committee of each district's administrative system has been appropriately abolished.

It was in March of this year that Harbin City decided on a restructuring to separate the party and the government, with the principal part of it being the placing of party organizations in enterprise units under local administration. The purpose was to change the leadership system in which party committees of government bureaus administered party organizations in enterprise units and, in accordance with their dependency, to establish a new leadership system in which the party committees at three levels—city, district, and subdistrict—administered the party organizations in enterprise units. In July of this year, experiments in local administration were conducted at 12 selected points in schools, stores, hospitals, and police stations in Nanma Subdistrict, Daowai District.

A responsible comrade of the Organization Department in the municipal party committee explained that putting party organizations under the local administration was a major step in the city's restructuring to separate the party and the government. It broke away from modes of thinking and leadership systems that people had become accustomed to for several decades, and thus it is understandable that some ideological problems and misgivings have appeared. At the same time the municipal party committee is paying attention to the pressure and the problems brought to the district and subdistrict party committees by the local administration of party organizations. Not long ago the city transferred nearly 200 young and middle-aged cadres from various organizations to the districts and subdistricts. It also sent some party and government cadres of organizations that had been streamlined to the districts and subdistricts. The municipal committee decided to make the subdistrict party committee the agency for the district committee, an agency that, based on the district committee's authorization, will play the role of the local party organization, so as to meet the needs of the restructuring to separate the party and the government.

From a look at the situation in the party committees of Nanma and seven other subdistrict party committees that are experimental points, we see that the party organizations of those enterprise units and the party committees of the subdistricts have basically been freed from administrative affairs. The practice of "the party administering the party" has obviously been enhanced; the "three meetings and one class" have been widely set up; and organizer study classes, propagandist study classes, and nonparty activist training classes are being run.

According to a briefing given by the municipal committee's organization department, the work of putting all of Harbin City's party organizations under the local administration will be completed around the time of the Spring Festival.

9727

**Brief Analysis of Social Class Structure**  
40050046a Taipei TZULI WANPAO in Chinese  
1 Nov 87 p 2

[From an Article by Hsu Chia-yu [6079 0857 3731]:  
"Class Structure on Taiwan"; in CHINESE JOURNAL  
OF SOCIAL SCIENCES, Vol 11, Spring (May 1987)]

[Text] Index of Position of Workers on Taiwan in Their  
Social and Economic Setting

**Comparative Table of Class Structure**

Classes	Class-Determined Criteria	Eco-nomic Charac-teristics	Percent-age of persons involved (15,392)	Education Level (%)		Annual Income (%)		Sex (%)		Provincial Origin (%)	
				Univer-sity & Higher	Primary School	Below 200,000	Above 400,000	M	F	non-Tai-wan	Taiwan
Capitalist	1. Owns means of production 2. Buys labor of others 3. Controls labor of others	1. Agricultural employer 2. Nonagricultural employer	4.6	10.5	37.6	4.1	49.2	4.7	3.0	2.9	4.8
Petty Capitalist	1. Owns means of production	1. Agricultural entrepreneur 2. Nonagricultural entrepreneur	29.3	1.2	55.7	42.0	10.2	29.9	22.3	13.4	31.8
Managerial	Controls labor of others 2. Sells own labor	1. Employed as manager or specialist for nonagricultural management	6.8	40.9	6.6	3.0	49.4	7.2	2.5	12.5	5.0
Workers	1. Sells own labor	1. Employed in agriculture 2. Employed as secretaries and in service jobs 3. Employed to render nonagricultural labor	59.4	7.0	36.9	37.6	7.9	58.1	72.2	71.3	57.4

**Health, Residency Problems of Parliamentarians**  
*40050046b Taipei TZULI WANPAO in Chinese*  
*29 Oct 87 p 2*

[Unattributed article: "Eighty-nine Parliamentarians Reside Abroad for Extended Periods of Time; Over 100 are Bedridden and Cannot Actively Participate in Parliamentary Proceedings; At Most Sessions Less Than Half of All Members Attend, Seriously Paralyzing Parliamentary Effectiveness"]

[Excerpts] Statistics show that 89 of the present total of 1,335 persons constituting the central representation of the people's will reside abroad for extended periods of time and seldom return to attend sessions. Moreover, more than 100 of them are chronically ill and bedridden, and unable to exercise their duties. Some senior representatives of the people's will also seldom attend sessions, so that normally less than half the members are present, a fact which seriously jeopardizes the effectiveness of deliberations. At the National Assembly, 84 of its somewhat over 950 members are "travelling abroad," the majority, 51, stay in America, next in numbers are 27 in Asia, then 3 in the Middle East, 2 in Australia, and 1 in Europe.

Even with extended residence abroad, these delegates can draw 4 months' pay as long and they return once within these 4 months. This emolument includes official fees, study allowances, and research assistance fees, totalling 78,200 yuan, so that the annual receipts are 938,400 yuan. For 84 delegates, this adds up to an expenditure of over 78 million yuan per year.

That these delegates still receive their pay, although they reside abroad over extended periods of time and ordinarily do not return to China to attend sessions to exercise their duties, that they even claim plane tickets and expenditure when returning for the annual sessions, is something that all the other delegates continuously call in question as unreasonable.

Chou Ch'ing-yu [0719 3237 3768], head of the Democratic Progressive Party caucus in the National Assembly, expressed the opinion that it is highly unreasonable that these delegates, who do not return to China to perform their duties, not only retain their qualifications, but also collect their high pay. Many of these delegates, furthermore, have double nationality, and it is really absurd to have these "foreigners" elect the president and vice president.

In addition to these delegates who reside abroad for extended periods of time, and who are unable to return to China to attend sessions, there are over 100 among the somewhat over 800 senior delegates who are not in good health, chronically ill and bedridden, and therefore not normally able to attend the various sessions. However, when the time comes every 6 years to elect the president

and vice president, they arrive on wheelchairs or stretchers at the assembly to cast their votes. These delegates too collect a pay of 78,200 yuan per month.

As to the 315 delegates who presently constitute the Legislative Yuan, 310 delegates have registered present at the current 80th Session, while five senior delegates are still abroad and unable to complete registration procedure.

According to information, delegate Chang Chi-ch'un [1728 1323 2504], one of the five, returned yesterday late at night from America, and for the time being it is still unclear whether he will be able to complete registration procedure. The other four legislators are under hospital treatment abroad. One of them, delegate Ch'en Hung [7115 3163], has repeatedly, for as long as for the last 5 years, applied for sick leave from the Legislative Yuan.

Kuo Chun-tz'u [6753 0193 2945], acting chief secretary of the Legislative Yuan, commented on this case to the effect that any delegate, who is under hospital treatment abroad and cannot return to China, and who applies for leave of absence from the Legislative Yuan before close of session, submitting a hospital or physician's certificate, may be considered as on leave, provided his application was duly checked by the Discipline Committee of the Legislative Yuan and approved by the current session of the Legislative Yuan; he may in that case still receive his emolument.

During every session of the Legislative Yuan, there are on the average at least five of its senior members sick and bedridden abroad, unable to attend the session, and writing in to request leave of absence. They will as usual receive their pay without performing duties. Actually, another 40 or 50 senior delegates will be laid up sick at home or in hospitals in China, also unable to report at the Legislative Yuan and to perform duties. In such cases the secretariat of the Legislative Yuan will send someone specially to their homes or hospitals to complete registration procedure, so that they may still draw their emoluments.

At the Control Yuan, apart from its nine members elected by overseas Chinese, unable to regularly return to China to attend all meetings, no other members roam abroad for longer periods of time, but almost 10 of its senior members are in bad health and unable to actively attend sessions and perform duties, some of these senior members are even bedridden, ill to a degree that they resemble mere human vegetables.

9808

**Scholars' Views on Parliamentary Reform**  
*40050046b Taipei TZULI WANPAO in Chinese*  
*12 Nov 87 p 2*

[Excerpts] A TZULI WANPAO questionnaire addressed to Chinese scholars of law and politics revealed that most of them propose to enact legislature for a retirement system for those senior delegates who are part of

the central representation of the people's will and to grant them favorable treatment, as one way to reform the parliamentary system.

Our questionnaire systematically selected 30 well-known scholars of law and politics from various Chinese universities as its target. It was not possible to contact all of them, but 20 responded. Among them were Lu Ya-li [0712 0068 0500], Miu Ch'uan-chi [4924 0356 0679], Ch'en Te-yu [7115 1795 4416], Ts'ao Chun-han [2580 0193 3352], Li Hung-hsi [2621 7703 4406], and Ts'ai Tun-ming [5591 1076 6900] from National Taiwan University; Ching Chih-jen [5427 4249 0088], Chu Chien-chang [2612 1017 4545], Lei Fei-lung [7191 7378 7893], Ma Ch'i-hua [7456 6386 5478], Lang Yu-hsien [6745 5940 2009], Lin Shan-t'ien [2651 1472 3944], Su Yung-ch'in [4479 3057 2953], and Fa Chih-pin [3127 3112 2430] from National Chengchi University; Ch'eng Chung-mu [1004 0112 2875], Hsieh Yen-keng [6200 1693 1649], and Huang Tung-hsiung [7806 2639 3574] from National Chunghsing University; Kuo Jen-fu [6753 0088 1318] and Lin Chia-ch'eng [2651 0857 6134] from Tungwu University; Wang Chih-wen [3769 1807 2429] from Wenhua University, and another two professors who refused to answer questions. The following table shows the result of our questionnaires:

Questionnaire: Views Held by Scholars on How to Solve the Problems in the Composition of the Central Representation of the Will of the People (Target: 20 responses; 2 declined to respond)

1. How are we to solve the present problem of parliamentary representation? Should a system of retirement for senior parliamentarians be instituted?

(1) A system of comprehensive and compulsory retirement for senior parliamentarians should be instituted, and the entire National Assembly should be reelected (7 persons).

(2) The entire National Assembly should be reelected, but there would be no need to institute a retirement system (3 persons).

(3) A double system of automatic and of conditional compulsory retirement should be implemented (8 persons);

(4) An automatic retirement system should be instituted (2 persons).

2. What are the specific targets for which compulsory retirement should be demanded? (Those having replied under (3) above can again select)

(1) health (8 persons);

(2) age (3 persons);

(3) attendance records (8 persons).

3. Should favorable treatment be granted to retirees?

(1) It is to be granted (12 persons);

(2) It need not be granted (5 persons).

4. What legal procedure should be adopted in instituting a retirement system?

(1) The president should decree a retirement system (1 person);

(2) The Legislative Yuan should promulgate retirement regulations (11 persons);

(3) By an amendment to the Temporary Provisions Effective During the Period of Mobilization for the Suppression of the Rebellion (2 persons);

(4) Through an additional interpretation by the College of Chief Justices (2 persons).

5. Do you favor a system of proportionate representation as method of electing our nationwide representation in the National Assembly?

(1) In favor (11 persons);

(2) Not in favor (10 persons).

6. Should a nationwide representation reserve seats for mainland residents?

(1) It should (3 persons);

(2) It should not (6 persons).

7. Should the National Assembly still maintain seats for overseas Chinese?

(1) It should (11 persons);

(2) It should not (7 persons).

8. How should overseas Chinese delegates be elected?

(1) By maintaining the present system of election (1 person);

(2) By general elections overseas or by election in overseas Chinese associations (2 persons);

(3) By inclusion in lists of political party delegates (4 persons);

(4) By some other method (3 persons).

10

This is a U.S. Government publication. Its contents in no way represent the policies, views, or attitudes of the U.S. Government. Users of this publication may cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, economic, military, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available source; it should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated. Those from English-language sources are transcribed, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names which are rendered phonetically or transliterated by FBIS/JPRS are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source.

## SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in 8 volumes: China, East Europe, Soviet Union, East Asia, Near East & South Asia, Africa (Sub-Saharan), Latin America, and West Europe. Supplements to the DAILY REPORTS may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications generally contain less time-sensitive information and are published periodically. Current JPRS publications are listed in *Government Reports Announcements* issued semi-monthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

U.S. Government offices may obtain subscriptions to the DAILY REPORTS or JPRS publications (hardcovers or microfiche) at no charge through their sponsoring organizations. DOD consumers are required to submit requests through appropriate

command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.) For additional information or assistance, call FBIS, (703) 527-2368, or write to P.O. Box 2604, Washington, D.C. 20013.

The public may subscribe to either hard-cover or microfiche versions of the DAILY REPORTS and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. Back issues or single copies of the DAILY REPORTS and JPRS publications are not available. New subscribers should expect a 30-day delay in receipt of the first issue.

Both the DAILY REPORTS and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.